Reform for Our Time

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Preface

In 1879 Henry George completed a brilliant polemic, presenting what might well be called a reform for all time. Through the century that followed *Progress and Poverty* has spoken more eloquently for itself than can any other piece of writing.

It was, however, a product of its time. George was an eminent and successful journalist. While he wrote about timeless subjects, he addressed his contemporaries in the idiom of his day. Because he used that idiom so well, so many listened to him.

This little book is an attempt to offer some of George's insights and recommendations in the idiom of the late 20th century.

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Stanley Sinclair
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I

Urban America

Our times are marked by great advances in technology and by increasing concentration of people in urban centers. We have created marvels of engineering that harbor stinkpots of filth festering with vermin and violence.

The tendency is to blame technology on the one hand and people on the other: Too many things and too rapid consumption of resources contaminate the atmosphere and corrupt the populace; narrowness and greed breed racism and prompt people to put self-interest above the public good. The time has come, we are told, for individuals to be instructed, cajoled and perhaps coerced to set the common weal before all else. We are instructed that technological advance, otherwise known as "growth," must be slowed lest we consume and pollute outselves to extinction; a new orientation must be given to men so that they might live together compatibly. Those who would promote these ideas prepare the way by telling men that the freedom they have is an illusion and the dignity they seek is mere egoism.

Egoism, if such there is, may lie in our pretense that our problems are unique. That they are different in detail, that they are peculiar to our age, that they are compounded by more knowledge and clouded by less insight may be true. That we alone are the challenged generation, may be little more than conceit.

"At the beginning of this marvelous era, it was natural to expect, and it was expected, that laborsaving inventions would lighten toil and improve the condition of the laborer; that the enormous increase in the power of producing wealth would make real poverty a thing of the past . . . disappointment has followed disappointment . . . discovery upon discovery, and invention after invention have neither lessened the toil of those who most need respite, nor brought plenty to the poor . . . Some get an infinitely better and easier living, but others find it hard to get a living at all. The 'tramp' comes with the locomotive, and almshouses and prisons are as surely the marks of 'material progress' as are costly dwellings, rich warehouses and magnificent churches." These words were written in the 1870's by a charter member of the American Populist movement. They are from the Introductory of Henry George's *Progress and Poverty*.

If a century ago George saw the tramp come with the locomotive we have seen the welfare check accompany the jet. We have seen relief expanded into a "War on Poverty" – and we have yet to win a battle. The armchair generals differ as to the reasons for our defeat. They argue over tactics: whether the poor can be rescued from indigence by giving them money (the negative income tax) or whether poverty can be reduced if not eliminated by subsidizing industry with plentiful credit (the trickle-down approach). Many strategists believe defeat has resulted because we have been niggardly in committing resources to the cause. But whatever the course, over 30 years of experience shows an invariant tendency to draw on the national government's ability to spend more than the revenue it collects. Now, even the most cheerful optimists begin to suspect the fabric of federal credit cannot be stretched without limit.

Both ineffective and costly, the programs popularly employed in pursuit of reform accept as given the way the fruits of production flow through our distributive system. They assign to government the redistribution of money income (through taxing and spending) and the search for stability (by counter-cyclical use of fiscal and monetary policy). In effect they superimpose on the system schemes that attempt to alter the effects of the system's operations. In seeking thereby to ameliorate symptoms of maladjustment, we may be ignoring what is taking place.

In his century-old statement of the problem, George observed:

> It is true that wealth has been greatly increased, and that the average of comfort, leisure, and refinement has been raised; but these gains are not general. In them the lowest class do not share. I do not mean that the condition of the lowest class has nowhere nor in anything been improved; but that there is nowhere any improvement which can be credited to increased productive power. I mean that the tendency of what we call material progress is in nowise to improve the condition of the lowest class in the essentials of healthy, happy human life. Nay, more, that it is still further to depress the condition of the lowest class. The new forces, elevating in their nature though they be, do not act upon the social fabric from underneath, as was for a long time hoped and believed, but strike it at a point intermediate between top and bottom. It is as though an immense wedge were being forced, not underneath society, but through society. Those who are above the point of separation are elevated, but those who are below are crushed down.[1]

More recently, the American Institute for Economic Research has calculated that the median wage in this country has not kept pace with the rise in the so-called cost of living. This means roughly half of the wage earning people are not keeping abreast of the rate of price rises as reported by the Bureau of Labor Statistics. This is another way of saying that the real wages of every other worker in the country trend downward. Such misfortune is a consequence of inflation, of course. But what is the inflating process if not a symptom of underlying dislocations?

It is the basic dislocations that are not brought to question. No source of inequality is looked for in the system. Rather inequality is said to be bred of personal shortcomings. To be poor is thought to be the result of laziness, faulty family life, inadequate education or social bias. The recommended remedy, therefore, is the improvement of the individual. Equip him to take his place in the wonderful wealth machine and he will no longer be poor. Such might be a solution for a poor man, but it can hardly be the means of expunging poverty. George likened it to the fallacy "involved in the assertion that every one of a number of competitors might win a race. That *any* one might is true; that *every* one might is impossible." He predicted the failure of the poverty programs: "If one man works harder, or with superior skill or intelligence than ordinary, he will get ahead; but if the average of industry, skill, or intelligence be brought up to the higher point, the increased intensity of application will secure but the old rate of wages, and he who would get ahead must work harder still."[2]

As long ago as the late 19th century, this astute journalist wrote:

> In the United States it is clear that squalor, and the vices and crimes

> that spring from them, everywhere increases as the village grows to the city, and the march of development brings the advantages of improved methods of production and exchange . . . This association of poverty with progress is the great enigma of our times. It is the central fact from which spring industrial, social and political difficulties that perplex the world, and with which statesmanship and philanthropy and education grapple in vain.[3]

Many economists and social scientists now are questioning – as are students and other inquiring minds – some of the shibboleths of our day. It is hardly any wonder that in response to this mood, Professor Milton Friedman, University of Chicago economist, has advised his colleagues, "Go back to the neo-classicists; start with Henry George!"*

*A thumbnail biography of Henry George appears as an appendix.

II

Wherefore Reform?

Why start with Henry George? Perhaps because few writers have approached the problems of economics with his passion and compassion; few books on the subject have circulated as widely as *Progress and Poverty*. Perhaps because he asked a key question: Why in the midst of ever-growing plenty does poverty persist? That this question goes unanswered, makes George's century-old classic remarkably pertinent today.

In his lifetime George saw the industrial revolution change the fabric of America. When *Progress and Poverty* was written there were 50 million Americans, 36 million of them living in rural areas. No more than a decade passed and the entire continent was occupied and a clearly marked frontier had disappeared. Not until 1920 did the Census Office report that town dwellers outnumbered the rural population. Yet George's was the first and perhaps the most articulate voice to call attention to the significance of the vanished frontier.

The flight from the soil was masked in part by the steady stream of immigration from Europe. But America was to become a nation of city dwellers, a rootless population separated from the land, massing in gregarious but impersonal crowds. "That concentration is the order of the day there can be no mistaking," George observed, "the concentration of people in large cities, the concentration of handicrafts in large factories, the concentration of transportation by railroads and steamship line [he couldn't have been expected to envision a 747], and agricultural operations in large fields."[4]

A century later economists can say, "The big corporation is no longer a special case of business power and organization; it is the normal form . . . Moreover, the extent and presence of that power has been growing irresistibly . . . In 1968 the 100 biggest industrial firms owned roughly half the total assets of the nation's 1.5 million corporations. This was the same percentage that the biggest 200 owned only twenty years before."[5]

George understood the dehumanizing effect of unrelieved industrialization; he saw that deprivation and squalor would brutalize those condemned to such conditions. "Whence shall come the new barbarians?" he asked. "Go through the squalid quarters of great cities, and you may see, even now, their gathering hordes! How shall learning perish? Men will cease to read, and books will kindle fires and be turned into cartridges!"[6]

If this picture is slightly out of focus, it is nonetheless recognizable. Yet the man who drew it, although he might deplore the evil side effects of economic growth, was no Luddite. He was not one to smash machinery or to attempt to turn the clock back to a lost pastoral life. George was not an enemy of technological development. His analysis of the way complex industries may develop from simple beginnings in new countries was insightful and often incisive; it emphasized the importance of subsidiary industries and of a large demand. He called attention to external economies and linkage effects; he understood the importance of economies of scale and the principle of comparative advantage. His was not an attack on bigness because of its size, but on privilege exercised without the redeeming feature of service performed. He anticipated the Kansas radical, John Ise who observed, "The modern corporation is a legal individual without an arse to kick or a soul to save."

A practical man, George would neither vent his frustration by kicking or waste his time trying to graft a soul onto the corporate body. Instead he chose a Jeffersonian approach. He would preserve the individual; he would offer a reform aimed at restoring the virtue of the republic without impairing its structure or diminishing its progress. The Jeffersonian ideal was a nation of small landholders – small farmers, small manufacturers and merchants. The *sine qua non* was not so much their lack of size as their access to land, their sharing in the bounty of nature. Writing from France to the Rev. James Madison, Jefferson commented:

> I am conscious that an equal division of property is impracticable. But the consequences of this enormous inequality [of land distribution] producing so much misery to the bulk of mankind, legislators cannot invent too many devices for subdividing property . . . The earth is given as a common stock for man to labour & live on . . . But it is not too soon to provide by every possible means that as few as possible shall be without a little portion of land. The small land holders are the most precious part of the state.[7]

Again, practicality precluded subdivision of the land as well as the dismantling of industry. "An equal distribution of land is impossible, and anything short of this would be only a mitigation, not a cure, and a mitigation that would prevent the adoption of a cure," George stated. The only remedy he thought worth considering was one that would fall in with the "direction of social development, and swim, so to speak, with the current of the times."[8]

If we would promote the dignity of the individual, if we still aspire to the Jeffersonian ideal, and if the times propel us toward the big organization, we must find the cure within that framework. Jefferson said, "The small land holders are the most precious part of the state." For all practical purposes the small land holder as an economic factor is the vanished American. We are all – even the homeowner – in the thrall of the organization. Within this context how can we come close to achieving the effect of small land holdings?

We can give the populace the equivalent of access to the land by collecting the rental value of land for community purposes.

The growth of industry and the relative decline of agriculture from its earlier prominence in men's affairs may appear to lessen our dependence on land. But the latest achievement of our technological brilliance serves to remind us how earthbound we are. A man's time on the lunar surface is limited by the amount of land baggage he brought with him. "Land," it must be remembered, "is necessary to all production no matter what be its kind or form; land is the standing-place, the workshop . . . it is to the human being the only means by which he can obtain access to the material universe or utilize its powers. Without land man cannot exist."[9]

Private persons need be allowed to enjoy possessory right to an exclusive use of land in order to secure the value of their improvements. Safe possession is, in fact, absolutely necessary to the proper use and improvement of land. But those using the land should pay fair rent to the community.

George approached the subject from two points of view, the ethical and the economic. Does the landowner – as distinct from the land user – earn the return which the location throws off? What contribution does he make to the production process that might entitle him to the rent? Is that rent the product of his ownership or does the value of the location arise from the natural attributes of the land and the presence of the community? Finally, what is the effect on the economic process of the private collection of the land rental?*

*For clues to the economic approach, see Notes to Chapter II.

III

Land
Land
Everywhere
But nary a Place to Stand

Here, let us imagine, is an unbounded savannah, stretching off in unbroken sameness of grass and flower, tree and rill, till the traveler tires of the monotony. Along comes the wagon of the first immigrant. Where to settle he cannot tell – every acre seems as good as every other acre. As to wood, as to water, as to fertility, as to situation, there is absolutely no choice, and he is perplexed by the embarrassment of richness. Tired out with the search for one place that is better than another, he stops – somewhere, anywhere – and starts to make himself a home. The soil is virgin and rich, game is abundant, the streams flash with the finest trout. Nature is at her very best. He has what, were he in a populous district, would make him rich; but he is very poor. To say nothing of the mental craving, which would lead him to welcome the sorriest stranger, he labors under all the material disadvantages of solitude. He can get no temporary assistance for any work that requires a greater union of strength than that afforded by his own family, or by such help as he can permanently keep. Though he has cattle, he cannot often have fresh meat, for to get a beefsteak he must kill a bullock. He must be his own blacksmith, wagonmaker, carpenter, and cobbler – in short, a "jack of all trades and master of none." He cannot have his children schooled, for, to do so, he must himself pay and maintain a teacher. Such things as he cannot produce himself, he must buy in quantities and keep on hand, or else go without, for he cannot be constantly leaving his work and making a long journey to the verge of civilization; and when forced to do so, the getting of a vial of medicine or the replacement of a broken auger may cost him the labor of himself and horses for days. Under such circumstances, though nature is prolific, the man is poor. It is an easy matter for him to get enough to eat; but beyond this, his labor will suffice to satisfy only the simplest wants in the rudest way.

Soon there comes another immigrant. Although every quarter section of the boundless plain is as good as every other quarter section, he is not beset by any embarrassment as to where to settle. Though the land is the same, there is one place that is clearly better for him than any other place, and that is where there is already a settler and he may have a neighbor. He settles by the side of the first comer, whose condition is at once greatly improved, and to whom many things are now possible that were before impossible, for two men may help each other to do things that one man could never do.

Another immigrant comes, and, guided by the same attraction, settles where there are already two. Another, and another, until around our first comer there are a score of neighbors. Labor has now an effectiveness which, in the solitary state, it could not approach. If heavy work is to be done, the settlers have a logrolling, and together accomplish in a day what singly would require years. When one kills a bullock, the others take part of it, returning when they kill, and thus they have fresh meat all the time. Together they hire a schoolmaster, and the children of each are taught for a fractional part of what similar teaching would have cost the first settler. It becomes a comparatively easy matter to send to the nearest town, for some one is always going. But there is less need for such journeys. A blacksmith and a wheelwright soon set up shops, and our settler can have his tools repaired for a small part of the labor it formerly cost him. A store is opened and he can get what he wants as he wants it; a postoffice, soon added, gives him regular communication with the rest of the world. Then come a cobbler, a carpenter, a harness maker, a doctor; and a little church soon arises. Satisfactions become possible that in the solitary state were impossible. There are gratifications for the social and the intellectual nature – for that part of the man that rises above the animal. The power of sympathy, the sense of companionship, the emulation of comparison and contrast, open a wider, and fuller, and more varied life. In rejoicing, there are others to rejoice; in sorrow, the mourners do not mourn alone. There are husking bees, and apple parings, and quilting parties. Though the ballroom be unplastered and the orchestra but a fiddle, the notes of the magician are yet in the strain, and Cupid dances with the dancers. At the wedding, there are others to admire and enjoy; in the house of death, there are watchers; by the open grave, stands human sympathy to sustain the mourners. Occasionally, comes a straggling lecturer to open up glimpses of the world of science, of literature, or of art; in election times, come stump speakers, and the citizen rises to a sense of dignity and power, as the cause of empires is tried before him in the struggle of John Doe and Richard Roe for his support and vote. And, by and by, comes the circus, talked of months before, and opening to children whose horizon has been the prairie, all the realms of the imagination – princes and princesses of fairy tale, mailclad crusaders and turbaned Moors, Cinderella's fairy coach, and the giants of nursery lore; lions such as crouched before Daniel, or in circling Roman amphitheater tore the saints of God; ostriches who recall the sandy deserts; camels such as stood around when the wicked brethren raised Joseph from the well and sold him into bondage; elephants such as crossed the Alps with Hannibal, or felt the sword of the Maccabees; and glorious music that thrills and builds in the chambers of the mind as rose the sunny dome of Kubla Khan.

Go to our settler now, and say to him: "You have so many fruit trees which you planted; so much fencing, such a well, a barn, a house – in short, you have by your labor added so much value to this farm. Your land itself is not quite so good. You have been cropping it, and by and by it will need manure. I will give you the full value of all your improvements if you will give it to me, and go again with your family beyond the verge of settlement." He would laugh at you. His land yields no more wheat or potatoes than before, but it does yield far more of all the necessaries and comforts of life. His labor upon it will bring no heavier crops, and, we will suppose, no more valuable crops, and; we will suppose, no more the other things for which men work. The presence of other settlers – the increase of population – has added to the productiveness, in these things, of labor bestowed upon it, and this added productiveness gives it a superiority over land of equal natural quality where there are as yet no settlers. If no land remains to be taken up, except such as is as far removed from population as was our settler's land when he first went upon it, the value of rent of this land will be measured by the whole of this added capability. If, however, as we have supposed, there is a continuous stretch of equal land, over which population is now spreading, it will not be necessary for the new settler to go into the wilderness, as did the first. He will settle just beyond the other settlers, and will get the advantage of proximity to them. The value or rent of our settler's land will thus depend on the advantage which it has, from being at the center of population, over that on the verge. In the one case, the margin of production will remain as before; in the other, the margin of production will be raised.

Population still continues to increase, and as it increases so do the economies which its increase permits, and which in effect add to the productiveness of the land. Our first settler's land, being the center of population, the store, the blacksmith's forge, the wheelwright's shop, are set up on it, or on its margin, where soon arises a village, which rapidly grows into a town, the center of exchanges for the people of the whole district. With no greater agricultural productiveness than it has at first, this land now begins to develop a productiveness of a higher kind. To labor expended in raising corn, or wheat, or potatoes, it will yield no more of those things than at first; but to labor expended in the subdivided branches of production which require proximity to other producers, and, especially, to labor expended in that final part of production, which consists in distribution, it will yield much larger returns. The wheatgrower may go further on, and find land on which his labor will produce as much wheat, and nearly as much wealth; but the artisan, the manufacturer, the storekeeper, the professional man, find that their labor expended here, at the center of exchanges, will yield them much more than if expended even at a little distance away from it; and this excess of productiveness for such purposes the landowner can claim just as he could an excess in its wheat-producing power. And so our settler is able to sell in building lots a few of his acres for prices which it would not bring for wheatgrowing if its fertility had been multiplied many times. With the proceeds, he builds himself a fine house, and furnishes it handsomely. That is to say, to reduce the transaction to its lowest terms, the people who wish to use the land build and furnish the house for him, on condition that he will let them avail themselves of the superior productiveness which the increase of population has given the land.

Population still keeps on increasing, giving greater and greater utility to the land, and more and more wealth to its owner. The town has grown into a city – a St. Louis, a Chicago, or a San Francisco – and still it grows. Production is here carried on upon a great scale, with the best machinery and the most favorable facilities; the division of labor becomes extremely minute, wonderfully multiplying efficiency; exchanges are of such volume and rapidity that they are made with the minimum of friction and loss. Here is the heart, the brain, of the vast social organism that has grown up from the germ of the first settlement; here has developed one of the great ganglia of the human world. Hither run all roads, hither set all currents, through all the vast regions round about. Here, if you have anything to sell, is the market; here, if you have anything to buy, is the largest and the choicest stock. Here intellectual activity is gathered into a focus, and here springs that stimulus which is born of the collision of mind with mind. Here are the great libraries, the storehouses and granaries, collections of philosophical apparatus, and all things rare, and valuable, and best of their kind. Here come great actors, and orators, and singers, from all over the world. Here, in short, is a center of human life, in all its varied manifestations.

So enormous are the advantages which this land now offers for the application of labor, that instead of one man with a span of horses scratching over acres, you may count in places thousands of workers to the acre, working tier on tier, on floors raised one above the other, five, six, seven and eight stories from the ground, while underneath the surface of the earth engines are throbbing with pulsations that exert the force of thousands of horses.

All these advantages attach to the land; it is on this land and no other that they can be utilized, for here is the center of population – the focus of exchanges, the market place and workshop of the highest forms of industry. The productive powers which density of population has attached to this land are equivalent to the multiplication of its original fertility by the hundredfold and the thousandfold. And rent, which measures the difference between this added productiveness and that of the least productive land in use, has increased accordingly. Our settler, or whoever has succeeded to his right to the land, is now a millionaire. Like another Rip Van Winkle, he may have lain down and slept; still he is rich – not from anything he has done, but from the increase of population. There are lots from which for every foot of frontage the owner may draw more than an average mechanic can earn; there are lots that will sell for more than would suffice to pave them with gold coin. In the principal streets are towering buildings, of granite, marble, iron, and plate glass, finished in the most expensive style, replete with every convenience. Yet they are not worth as much as the land upon which they rest – the same land, in nothing changed, which when our first settler came upon it had no value at all.[10]

This classic passage from *Progress and Poverty* is perhaps the most poetic description of economic process in the English language. It is Henry George's application of Ricardo's long-standing Law of Rent.

"The rent of land," George explains, "is determined by the excess of its produce over that which the same application can secure from the least productive land in use."[11] The idea is so basic George likened it to a geometry axiom. Where some land is available for the taking, no farmer will pay to use an acre unless using it gives some advantage over the free land. Certainly he won't pay more than the advantage he gains.

Presumably the better land will have been fenced off so that only poorer land will be available free. And the farmer who uses free land will take the best to be found. That best will then become "the least productive land in use," or marginal land. Hence, the rent of any particular site will be the difference between the production on it and what would be possible with the same amounts of labor and capital on "marginal" land.

This is a theoretical construct, of course. A man with a plow on one quarter-acre can spend as much time on another quarter-acre; he can measure the difference in yields from the two sites. But such crude evaluation hardly serves as a suitable technique for determining rent, nor is it necessary. With supply-demand theory, a far more sophisticated approach is possible.

Classical political economists saw rent arising as the consequence of varying fertility between one place and another. George saw it in wider terms:

> Although many standard treatises follow too much the example of Ricardo, who seems to view it merely in its relation to agriculture, and in several places speaks of manufactures yielding no rent (when, in truth, manufactures and exchange yield the highest rents, as is evinced by the greater value of land in manufacturing and commercial cities), thus hiding the full importance of the law, yet, ever since the time of Ricardo, the law itself has been clearly apprehended and fully recognized.[12]

Even in agriculture, rent is not determined only by the productivity of the soil: the location of the land relative to the market place is also a factor. The early 20th century American economist John R. Commons redefined the concept of land rent as a return from location as distinguished from the Ricardian meaning of return for the "original and indestructible powers of the soil." Richard Ely makes it clear that site (economic location) always refers to orientation in relation to other economic factors; value of urban land arises out of spatial relations of land.[13]

Land is rarely, if ever, desired for its own sake. It is needed either as access to natural resources or as the location for some activity. Demand for land therefore is *derived demand*; it is derived from the demand for the products ultimately to be produced at the site. And each individual producer can calculate what he can afford for the site where he will operate.

Rent arises because land, as a non-reproducible factor in production, exists in limited quantities and users will compete for the most advantageous locations. If any one unit of land were withdrawn from use, the aggregate product would be smaller. Hence the rent of a given piece of land will be roughly equal to the value of the portion of the product that is dependent on using it.

Nowhere is this better demonstrated than in the cities where manmade facilities are developed around natural advantages. The market town invariably has sprung up where there was access to the sea or at the confluence of waterways. The railroad junction, in what was the sparsely settled West, usually appeared where valleys or other natural pathways came together. Trade, the opportunity to swap products and to offer and enjoy services fully as much as the urge for social exchange, has always brought people together. It is hardly surprising to find them meeting in the most convenient places.

The experience was the same in the Euphrates Valley, along the broken shoreline of Greece, beside the Tiber and the Thames. It is particularly vivid to those familiar with the development of American towns and cities. Where rivers emptied into ocean, gulf, or lake, where valleys converged and hills rolled down to flatlands on river banks, there farmers, trappers and Indians traded. There the major forts were built; there commerce attracted artisans and industry grew.

New York's deep-water seaport and its route into the hinterland through the Hudson Valley and the Erie Canal made it the port of entry for European goods and capital as well as the reception center for generations of immigrants. Chicago grew up along Lake Michigan and the Chicago River that gave access to the prairies. Later the convergence of the railroads there brought the stockyards and packing houses, the granaries and the Board of Trade. These cities waxed richer and were built larger, but their development has been essentially the same as cities everywhere.

Although economists have analyzed the location and makeup of urban communities, city dwellers – like people everywhere – are not always free to respond strictly according to natural physical advantage, geographic peculiarities and relative economic returns. Nowhere is this more apparent than in the decline of cities.

The lineaments of decline have been just as repetitious as those of growth. Wars and plagues aside, cities have deteriorated in the same fashion throughout history. The core has remained the area of business and government; here old buildings are often replaced with new ones to house retail establishments, offices and the well-to-do. Old hotels become stately or are supplanted by new ones to meet the needs of visitors. Venerable houses of culture are lovingly refurbished; witness the magnificent job done on Philadelphia's more-than-century-old Academy of Music.

But around the corner, at most a block or two away from this hub, are poorly constructed lofts and tumbled down houses. Here light manufacturing and service industries occupy the shabby buildings during the day; vagrancy and vice are sheltered at night. The neat rows of workingmen's homes are farther from the center. The middle class will have moved into the wind and toward the hills to escape the smells, the noise and the turmoil. Left in their wake are houses no longer fashionable that are broken into small apartments and rooming houses. The more affluent have gone beyond the city's political boundaries and left municipal problems to those less able to cope with them.

Geography may prevent the neighborhoods of indigence and affluence from fanning out in neatly concentric circles. In Miami, for example, there are ellipses along the beach; in Los Angeles there are many centers. Only in some European cities, in New York, and perhaps in Chicago, are slum areas reclaimed as "gold-coasts" for fancy purposes. But this only complicates rather than invalidates the pattern.

There is considerable economic theory on the subject. Location specialists have defined urban sites as "physical location plus human choice"; that is, site is an economic location and involves the interplay of economic factors.[14]

Others explain, "Each site tends to be put to the use whereby it will yield the maximum total return over the costs involved in utilizing it." There is a "maximum return" for residential locations, too, such as its being easy to reach, the privacy it affords, the status it imparts, or the view one can have from the porch or through the picture window.[15]

The payment of rent represented, to Henry George, no aid to production, but only the monopoly power* of obtaining a part of production from whoever was accorded the opportunity to produce on a given piece of land. "Rent in short," he said, "is the price of monopoly, arising from the reduction to individual ownership of natural elements which human exertion can neither produce nor increase." [16]

The value of the land is based on its accessibility and its location within the economic arena – the intensity of economic activity on neighboring sites. Because the owner of a site produces neither accessibility nor the intensity of surrounding economic activity, rent is not, strictly speaking, a "return to a factor of production" but rather the consequence of external economies. To the landlord it is an unearned increment.

*For a discussion of the economic analysis of rent as a monopoly profit, see Notes to Chapter III.

IV

The Land Question

One of the slickest deals in the annals of New York City real estate was the construction of the 42-story Socony-Mobil building at 42nd Street and Lexington Avenue. Significantly, the Mobil Oil Corporation is merely the principle tenant in the building that bears its name; the company owns neither the structure nor the square block it occupies. The building cost $43 million and, when built, was owned by two men, John Galbreath and Peter Ruffin. Neither of these men owned so much as a shovelful of the soil under its foundations.

In a superbly executed set of transactions, Galbreath and his partner leased about 84,000 square feet of land literally in the shadow of the Chrysler building, just across the street from the Commodore Hotel, and half a block from Grand Central Station. Fifth Avenue is a scant three blocks in one direction and the United Nations not much farther in the other. Galbreath and Ruffin simultaneously procured their ground lease, completely rented their building (to Mobil, American Tobacco, Woolworth and the First National City Bank among others) and obtained a $37.5 million construction loan from a large insurance company, all before a single spade was turned for the foundation excavation.

The building site, running from 41st to 42nd Streets between Lexington and Third Avenues, is the property of the Goelet Estate – representing the heirs of one of New York's oldest and wealthiest families. According to Fortune magazine, "Galbreath is thought to be paying something in excess of $500,000 a year for his ground lease, which runs for 60 years."*

At this point, one might well ask, "Why?" Why should the present-day descendants of farmer Goelet receive half a million dollars a year? Because their forebear dug his plow into mid-Manhattan's forbidding soil? Or is it because they stubbornly clung to their birthright throughout the intervening century?

Before attempting to answer these questions, it might be well to examine the role each of the participants has played in this little economic drama. Start with the leads: Galbreath and Ruffin, by the exercise of their abilities, ingenuity and courage, put the deal together and made a modern structure with 1,600,000 square feet of floor space rise where before had stood a motley collection of moldy, dilapidated buildings long past their usefulness. For this contribution to the productive process they would seem to be entitled to the wages of superintendence.

The insurance company provided $37.5 million to supply the tools and materials necessary for the building's construction. In doing so, the company has taken the savings of a vast number of policy holders and made them available to the builders. In this case many people have abstained from using their purchasing power in the market and, instead have made it available to Galbreath and Ruffin in the form of capital. For having done this, they should be entitled to a return on their investment.

But all this energy, willingness to assume risks, and materials would be of

*July 1955, p. 132.

no consequence without a plot of land on which to bring them together in a useful structure. Land, as a building or operating site alone, is a prime necessity. Further, for any productive process, we must start with the land: it is the source of all of nature's raw materials. And production is essentially the application of man's labor to the materials of nature's bounty. For the use of land, men throughout the ages have paid ground rent.

Here, we have the last actor. The Goelet Estate is said by some to have provided the land, and for having done so, receives the ground rent. But if we are to determine who is to be paid for what, we must have some standard; we need a criterion for payment.

Inexorably in the field of human relations, if someone gets something for nothing, someone else must be left with nothing for something. Professor Samuelson has referred to "the basic fact of life that there exists only a finite amount of human and non-human resources, which the best technical knowledge is capable of using to produce only a *limited* maximum of each and every good . . ."[17] Real wealth is created only by the application of labor to natural resources, with the aid of capital, and justice would indicate that wealth should accrue to those who have created it or caused it to be created. Applying this rule to a building site, rent received by a landlord is unearned income.

The argument is frequently offered that the landowner supplies the site. In the case of the Goelet heirs, they "carried" the property until the builders came along to use it; by paying annual taxes on it, thereby contributing to the community, they are entitled to their equity in the land. But anyone familiar with the neighborhood will recall that the land had not been used to its best advantage for a generation or more, that the rent from decaying structures on it more than paid the land taxes or carrying costs.

The picture becomes clearer if we look at what the landlords did *not* do.

First: They did not provide the site for the building. The 84,000 square feet of earth was there long before the Dutch thought they bought Manhattan Island.

Second: They did not provide the advantages of the location. The landowners are in no way responsible for New York's deep-water harbor or the Hudson Valley access to the hinterland that attracted the city's tremendous population in the first place, or for its leadership in commerce, finance and the arts. They had nothing whatever to do with the subways, buses and railroads that converge near the site. They contribute not one whit to the multitudes that stream in, around and through it every working day.

Yet these are the attributes of the site that enabled the builders to lay and execute their plan. These are what the tenants pay for. It is the convenience of transportation, the streets, the municipal facilities, and the very presence of the community that make this site useful and desirable to the tenants. It is all these things that give this parcel of land its value.

Land value is not deliberately created. Those who produce goods do so in anticipation of demand. They deliberately create the value that arises from this demand. But the land is there. If a particular parcel of land has value, it is because the value created in the production taking place on it is enhanced by having occured at that location.

In essence, rent results not from the act of production, but from the permission given to produce. The land question then becomes: Who shall grant permission to produce? And the all-important corollary is: Who shall collect the rent?

Henry George's answer was unequivocal:

"We must make land common property."[18]

Radical though he was, George was no firebrand. He was more interested in substance than in form. The injustice he saw in the private collection of unearned income – land rent – cried out for correction. But his drive for justice did not take him into the streets or to the hills with rifle and bombs. He chose a very practical remedy that would achieve the justice he sought within the system. He wanted to get the train on the right track without wrecking it.

He explained:

> I do not propose to purchase or to confiscate private property in land. The first would be unjust; the second, needless. Let the individuals who now hold it still retain, if they want to, possession of what they are pleased to call *their* land. Let them continue to call it *their* land. Let them buy and sell, and bequeath and devise it. We may safely leave them the shell, if we take the kernel. *It is not necessary to confiscate land; it is only necessary to confiscate rent.*
>
> Nor to take rent for public uses is it necessary that the State should bother with the letting of lands, and assume the chances of the favoritism, collusion, and corruption this might involve. It is not necessary that any new machinery should be created. The machinery already exists. Instead of extending it, all we have to do is to simplify and reduce it. By leaving to landowners a percentage of rent which would probably be much less than the cost and loss involved in attempting to rent lands through State agency, and by making use of this existing machinery, we may, without jar or shock, assert the common right to land by taking rent for public uses.
>
> We already take some rent in taxation. We have only to make some changes in our modes of taxation to take it all.[19]

V

Land Value Taxation

Reform has always been for the other fellow's backyard. In the ancient world, sponsors of land reform usually met a sorry fate. In modern times, its proponents have been dealt with less severely. They have been in turn lionized and ignored.

The Physiocrats enjoyed considerable popularity in Paris salons during the period of ferment that preceded the French Revolution. These followers of Quesnay saw land as the source of all wealth.* They believed industry and commerce merely added form and place utility to the natural products of agriculture without increasing their value. Despite this quaint view of the economic process, they did make a contribution: After deducting the labor expended and putting aside seed for the next crop, they said, agriculture yielded a residual product which they called the *produit net*. It was this *produit net* that they wanted the government to tax – as an *impot unique* – in place of levies that were crushing the French economy.

Somewhat earlier, the Dutch burghers in colonial New Amsterdam with more practice and less theory had sought relief in a land tax. "Over crowding ... first became a topic of discussion and action in 1658 when the Council ordered all owners of vacant lots to improve them, *pay a special tax to retain them unimproved*, or surrender them to the city for public sale."[20]

The action by the New Amsterdam city fathers was just one of many *ad hoc* applications of taxes imposed on land to meet specific needs. The Physiocrats, their analysis faulty on many counts, never succeeded in promoting their *impot unique.* Perhaps the first systematic treatment of the land problem was made in France early in the 19th century. Auguste Walras studied the nature of property and analyzed value. Utility, he explained, was necessary for an item to have value; but utility was not a full explanation of the process, scarcity was also a necessary ingredient. His work, which he published in *De la Nature de la Richesse, et de l'Origine de la Valeur* (1831), and *Theorie de la Richesse Sociale* (1849), led him to support the public ownership of land. [21]

Unfortunately, neither of these books has ever been translated into English, and, as far as is known, Henry George did not read French. Yet one finds long passages in Walras' French and George's English that, laid side by side, make good translations, one of the other. George, we may assume, was familiar with the work of neither Walras pere nor his son Leon – acknowledged to be one of the foremost contributors to pure economic analysis – who also advanced the idea of land value taxation.**

*Francois Quesnay (1694-1744), court physician to Louis XV, was one of the famed Encyclopedists; his *Tableu Economique* (1758) was one of the earliest economic models.

**The elder Walras was a civil servant who spent most of his career at odds with his superiors, never gaining recognition. Leon Walras was ignored in his native France while he lived; he taught in Lausanne from 1870 until his death in 1910.

George's own work received acclaim abroad before the American public paid much attention to it. Even now it has more application in other climes than here. Largely influenced by *Progress and Poverty*, Australia and New Zealand have partial land value taxation. Newly independent Jamaica is experimenting in this direction. On the North American continent, the province of Alberta benefits from a method of collecting land rent for the exploitation of its natural resources. Southfield, Michigan has particularly interesting results from a partial shifting of the tax incidence from improvement to site.

Property taxes in the United States come to roughly $34 billion annually and provide 85% of local government revenues.* Economists agree that this tax is really two taxes: one on land (non-reproducible assets) and the other on improvements (reproducible capital). On these levies the dean of New York University's Graduate School of Public Administration, Dick Netzer, comments,

> It is clear that, aside from its revenue productivity, the positive attributes of the property tax are insignificant compared to its defects. There is one form of property taxation, however, for which an entirely different, and favorable, balance of advantages and disadvantages can be struck. This is the taxation of bare site values – the land alone, without any tax on the building on the site – an old idea vigorously espoused by Henry George a century ago. The land value tax is the economist's ideal: it is equitable; it is neutral in its economic effects; and it is positively desirable as a replacement for the conventional property tax with its many bad economic effects. [22]

Not only has land value taxation become the subject of academic study and discussion, it is under consideration by national legislators. A report to a Senate subcommittee states:

> Land-value taxation has been gaining increased consideration as a possible way out of the present property tax dilemma. Under land-value taxation, land would be assessed at a current market value based on its highest potential developed or redeveloped use, rather than based on present use. As taxes on land were increased, taxes on building improvements could be lowered. These changes would encourage more rapid, lower-priced sale of land for higher-use development or redevelopment. At the same time, lower building taxation would encourage more development and redevelopment with lower land costs, also permitting more rational pattern of spatial relationships in urban development. Reduction of the Federal land capital gains tax benefit would operate in a fashion similar to the introduction of land-value taxation.[23]

Perhaps the most interesting and informative material on site value taxation comes not from theorists, but from practioners. Ted Gwartney, the assessor of Southfield in the administration of Mayor James Clarkson, told this story: [24]

> The city of Southfield has drawn nation-wide attention for its emphasis on land-value taxation. Southfield's policy of assessing has differed from most other cities since 1962. There is an annual reappraisal of land values. Land is assessed on a basis of its *full market value* –

*U.S. Bureau of the Census "Government Finances in 1969-70," September 1971, p. 20.

whether it is being used, used poorly or not used at all, zoned or not zoned properly. Southfield has one of the most active commercial real estate markets in the nation. Real estate developers have been drawn to this city by the stability that land-value taxation has created in the land market. A buyer of an un-improved site fully realizes he will pay taxes based upon the market value of the site, whether he builds or not.

This policy has given Southfield a tremendous advantage over the surrounding suburban cities and Detroit. At the same time rapid growth in the City of Southfield has placed a tremendous burden upon the community to provide services – pave roads, provide sewers and water, police and fire protection, build schools, parks, recreation and library facilities, and to do all this with efficient administration and economy. Southfield has done this with the lowest major city property tax rate in the State of Michigan – one third the amount of the City of Detroit property tax rate. Many of the State's big cities also have a municipal income tax; Southfield does not.

When Mayor James Clarkson took office in 1961 he wrote to the assessor requesting him to study implementation of land-value taxation by providing partial exemptions to improvements and annual reappraisals of land values. Under Michigan law it would be difficult to put into practice a program of taxing land values *only*. The assessor pointed out that he could not comply with the mayor's request, whereupon the mayor asked the assessor to resign.

The City Council appointed a committee to study assessing practices. The mayor presented to the Council documentation of land value assessments far below the sales prices that they were bringing. The Council study committee found no negligence in the operation of the Assessing Department, but called for steps to be taken to enable the Assessing Department to do a better job of reappraisal.

The mayor recommended the establishment of a land division under the assessor's office to annually reappraise all the land in the City of Southfield. To accomplish the first reappraisal, the J.M. Cleminshaw Company, an independent appraisal firm from Cleveland, Ohio, was hired. The Cleminshaw Company did a complete reappraisal of land values throughout the city which resulted in an increase in valuation of land parcels amounting to $45,000,000. The Council balked, and a compromise was reached by depreciating all buildings in the city by $22,500,000.

The new city assessor urged the Council to back the mayor and the Assessing Department in putting the land reappraisal program into effect. With the reassessment program completed controversy ensued, which concluded with the council instructing the city's Board of Assessment Review to remove the Cleminshaw Company land reassessment program. A taxpayer's suit instituted by the Federation of Homeowners Associations, representing the majority of homeowners in Southfield, sued the city to maintain the assessments as determined by the Cleminshaw Company, and they won. Homeowners generally experienced a reduction in assessed values and a reduction in the city tax rate. Speculators received a whopping increase in assessed values. This established the policy of annual land reappraisal within the City of Southfield. Mayor Clarkson won four elections on a basic platform of land-value taxation.

The new assessor's policy was not to increase an assessment because a building was improved or a home fixed up. This policy extended to exempting most home improvements, including yards, landscaping, sprinkler systems, driveway paving, fences, storm windows, gutters, repairs, paint, and minor modernization. A man's home has become his castle in which the improvements he makes are not assessed. Counterwise, those who let their property deteriorate by failing to paint, repair, maintain and improve, find that they receive no reduction in tax assessment. This policy has worked favorably to encourage people to improve and maintain their homes.

All assessments are on a uniform basis. Land that rises most rapidly in value is given priority in the reappraisal process. Appraisal of properties is based upon sales information that has been confirmed and adjusted for special conditions. We have a large number of land sales and our land value appraisals have good justification.

When a new building is built, a complete and individual appraisal is made, then immediately we apply 3% depreciation. Many items are excluded from the first appraisal such as landscaping, sprinkler systems, walls, garbage disposals, etc. These building values can be depreciated or updated annually depending upon economic circumstances. We apply the principle of adjusted net income capitalization to further check our commercial building values.

Our annual reappraisal would be impossible without the use of a computer system. Southfield does not own a computer, but contracts with a professional company, Computer Control Corporation, which specializes in performing municipal computer services on a fee basis. They have designed a program which allows us to do a mass city-wide reappraisal in a period of three hours, once a year, at the cost of less than a new secretary. During the year we collect the necessary data so that we are able to have this service performed.

The computer, in addition to doing the paper work of the annual reappraisal computation, also prints our assessment roll, prints a letter informing each person in the city of his assessed valuation – land and building – prints a zoning summary report for the county and state and prints a sales study which indicates error in assessments and establishes reappraisal priority.

The primary benefits we receive from the computer are a high level of uniformity, low level of error, and a very economical way of maintaining current assessments. During our first year, we spent only about twenty cents per property for preparing all the programs we presently use. We estimate that the annual reassessment should cost about six cents per parcel. We estimate that our staff will be able to spend 35% more of their time in actual field appraisal work. The costs of performing these same services on a manual basis without the use of a computer would be $5 to $15 per parcel. More of the staff's time is now being used in reasoning and less in computing.

> Southfield has become one of the fastest growing cities in America. In 1967, 21% growth was added to our assessment roll. Southfield is now the eighth largest city in Michigan and comprises 26.6 square miles and 65,000 people. There are over three hundred major office buildings including headquarters for national leaders such as Bendix, Standard Oil, Maccabees Insurance, Eaton, Yale & Towne, Federal Mogul, McDonald Travel, Allstate Insurance, and Kelly Girls.
>
> Between 1960 and 1968 over 3 million square feet of office space were built in Southfield. This is 10% greater than the amount of office space built in Detroit, which ranks as the fifth largest city in the nation. Over one thousand new homes were built in Southfield in 1967, and the average house sells for around $27,000. Houses vary in price from $10,000 to over $100,000. Southfield has property valuation in excess of $750 million – $250 million in land and $500 million in building. There was over $75 million in new building construction in 1967 alone.
>
> Land-value taxation cannot take all of the credit for our city's growth. We do not even have one hundred percent land-value taxation. However, we do have perhaps a greater amount in Southfield than in any other city in the nation; and Southfield's record is impressive. At present, we have a definite competitive advantage over neighboring cities that have failed to keep land assessments current and find their land sitting idle year after year. We do not find our fifty year old homes becoming slums.
>
> Heavy taxes on improvements are bound to discourage, delay, or even deter owners from making improvements. The bigger the improvement tax, the smaller is the owner's incentive to spend good money to improve his property. In Southfield, heavy taxes on land values tend to encourage growth and sometimes compel development. The bigger the land tax, the bigger the leverage on owners of unused property to properly improve it or sell it to someone who will.*

Gwartney's position is well documented in economic literature. One of the important aspects of the land tax is that it cannot be passed on to the tenant user by the land owner. (See chart on page 22.)

Dick Netzer explains:

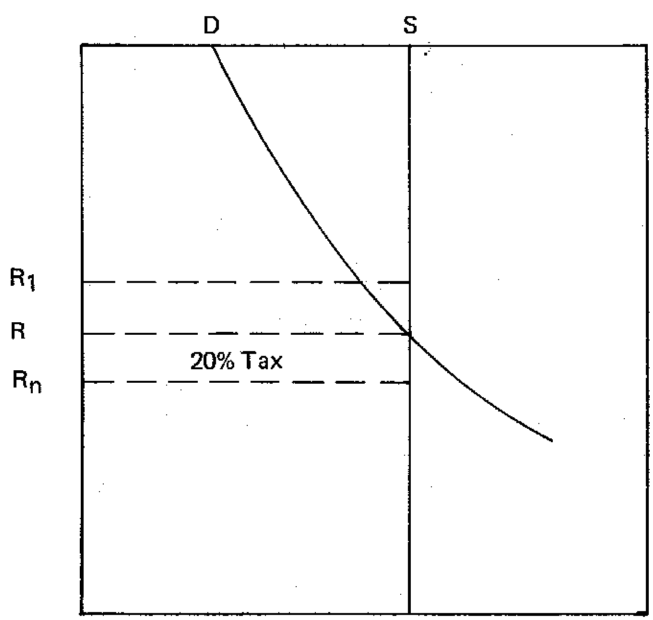
> It is generally agreed that taxes on the value of bare land – the sites themselves exclusive of applications of reproducible capital in the form of grading, fertilizer, and the like – rest on the owners of the sites at the time the tax is initially levied or increased. The tax cannot be shifted, because shifting is possible, under reasonably competitive conditions, only if the supply of sites is reduced. But the supply of land is, for all practical purposes, perfectly inelastic. Individual landowners will not respond to an increase in land taxes by withdrawing their sites from the market, since doing so will not affect their tax liability. Indeed,

*For more on the practical applications of site value taxation see Notes to Chapter VII.

their only chance of reducing the burdensomeness of the tax relative to their income streams is to seek to raise the latter by encouraging more intensive use of the sites they own. Collectively, landowners cannot reduce the stock of land: if individual landowners wish to liquidate in the face of higher taxes, they must sell the sites to other owners.[25]
33]

But the real lesson lies not in the ability of the government to make the landlord pay, it is, as Mitchell Lurio put it, that "ground-rent is not a tax, an arbitrary figure based on budgets and all 'that the traffic will bear.' It is the annual market price for the privilege of utilizing sites. Most of it is now being retained by owners, paid for by labor and capital and government has to tax the latter more heavily than would otherwise be the case." [26]

EFFECT OF 20% TAX ON LAND RENT



The economist illustrates this principle with the familiar supply-demand graph. If a 20% tax is put on the land, the owner cannot collect 20% more – or any part of it – than the rent (R) as determined by the downward-sloping demand curve's intersection of the vertical supply curve at equilibrium. Were the owner to attempt to pass this increase along, he would be trying to raise R to or toward R_1. This would clearly price his land out of the market. He must, in order to fall within the existing demand, accept R, pay the tax, and settle for net rent (R_n).

VI

'Mundus Senescit'

Is it sufficient to say George made a valid contribution to social thought because his observation about a basic problem is economically sound and philosophically humanistic? His observation should be examined against the backdrop of history. The land question is not new. Recognition of the problem is not a recent accomplishment. It was neither a discovery of the late 19th century nor a revelation to 18th century Englishmen. The Chinese, two hundred years before the Christian era, dealt with land utilization. Kouan-tse, economist of the Celestial Kingdom, quoted an earlier authority, Tsien-tche.

> A shop on the great street that runs toward the entrance of the Imperial Palace lets for four times as much as it would let for if it were in a more ordinary and les-frequented quarter. What is the reason for this augmentation of rent? Why should this disproportion exist between two houses whose real value is the same since they have cost the same to build? It is because, although it only depends on myself, if I am the owner, to profit by its advantageous commercial position, I yield my right to the merchant on condition that he shall make amends by increasing the rent in proportion to the profit it will procure for him, and which I have given up to him. [27]

The predominantly agrarian Chinese of that time were interested in keeping land in use and in making it available to the largest number of people. They had a clever device for achieving their end. Interest on money was set by law at an effective 30% per year. The idea was that wealthy people – those likely to own more land than they could or would cultivate or occupy – would be induced to sell their land for coin (largely silver), which they could lend for a considerably better return than they could expect from the land. Thus, because land was not often held out of use, rent was kept within the reach of the majority of the population.

The West was not so clever. The Hellenistic world did not come to grips with the land question until the time of the Peloponnesian War (431-404 B.C.). By then the problem was so acute that Athens added to its civic oath a provision that no citizen should propose the division of land or the cancellation of debt. This injunction was eventually included in the constitutions of many city-states.

Rostovtzeff comments that "the Hellenistic kings were powerless to cure this cancer [of civil strife], and no city ever seriously attempted to solve the social problem. The problem of wealth or poverty was regarded by philosophers as a question of personal morals." [28]

In Sparta about 244 B.C., King Agis IV tried to carry out a program to cancel all debts and to divide confiscated land among 4,500 Spartiates and 15,000 Perioeci. Heavily mortgaged large landholders supported the first part of the plan and it was made effective. But the endeavor to redistribute land was fatal to Agis. His opponents put him to death in 241 B.C.

The Romans fared no better. As early as 367 B.C. the *Leges Liciniae Sextiae*, laws limiting the amount of land a family could hold, were enacted after a decade of struggle by small land holders. But at the end of the First Punic War (241 B.C.), returning soldiers found their farms untilled, or mortgaged or appropriated by large landowners. These great proprietors also arbitrarily annexed large areas of the *ager publicus* (public lands). The consequent growth of many huge estates, known as *latifundia*, meant the concentration of land in a relatively few families.

The reforms of the Gracchi attempted to break up these enormous holdings as well as to provide cheap grain to relieve the distress of those displaced from the land who sought refuge in the city. But the first failed and the second became the "bread and circuses" of a later day.*

The Romans were caught in a web of their own spinning. The army of the republic had relied on small landholders, most of whom fought as citizens of Rome. Others served with the promise of citizenship. By the end of the Third Punic War (146 B.C.) this land breed had all but ceased to exist. Few small landholders remained. Not only did the Roman laws of the Senate serve to beggar the small farmer and thus make him prey to the estate owner, but market conditions worked against him. The fall of Carthage put an end to the supply of olive oil and wine, leaving the market to Rome. The estates of Italy were turned from cornfields to olive groves and vineyards. It was cheaper to get corn and grain from the provinces than to grow them at home. Foreign conquests provided a plentiful supply of slaves, making it possible to operate large tracts with a low labor cost.

Sulla (c. 80 B.C.) attempted land reform by distributing small holdings to 120,000 soldiers as a reward for service. Pompey, Caesar, Antony and Octavian all followed the same pattern. But repeated distribution of land among discharged soldiers did nothing to restore the republic. It did not stop the growth of *latifundia* or stem the tide of population into the city, which even the growing industry and commerce of Rome could not employ.

By the time Octavian assumed the purple as the first Augustus, free Romans were beginning to join their small holdings to great estates for protection and security. There was no clear pattern in the intervening years, but in the third century "imperial domains grew in size, and *latifundia* emerged once more; the familiar result was to reduce the small agricultural owners to the status of a proletariate, who eventually were held by the owners of the so-called *patrocinia* as free serfs, performing the same functions as slaves had done in republican days." [29]

This was the condition the Emperor Diocletian (284-305 A.D.) did much to institutionalize by binding farmers and their sons to the soil they tilled (whether as owners or tenants) and townspeople to their trades. When later the empire collapsed, the barbarians took over the Roman territories of Western Europe. Their kings assumed the offices of the local administrators – even taking their titles.

*Tiberius Sempronius Gracchus became consul in 133 B.C. His agrarian reform sought to enforce the ancient limitation on use of the *ager publicus*. Compensation for improvements was given to those made to surrender land held in excess of the quota; the product of such land was to be distributed to the needy. Tiberius was assassinated. A decade later, his younger brother Gaius Gracchus was elected consul. He tried to renew the land reform, but the attempt ended in bloody failure with Gaius and some 30,000 adherents slain by patrician partisans.

Lacking the organization that had been imperial power, each of these petty tyrants had to deal with an aristocracy of great landowners. Pirenne describes these proprietors: "some were descended from rich Gallo-Roman families, who were wealthy before the Frankish conquest; others were favorites, whom the kings had generously endowed with estates, or counts who had profited by their position to create spacious domains for themselves." 30

Slavery had disappeared and the *latifundia* had evolved into the manorial system. As their markets shrivelled, landholders had progressively abandoned agriculture on a large scale and divided their estates into tenures. The domain was split into two unequal parts: (1) the seigneurial land, exploited wholly for the benefit of the seigneur; (2) the mansion land, worked by serfs who did not possess tenures and by tenants who had hereditary right to the land subject to prestations (payments in kind and labor). Of this world, Gregory of Tours, historian of the Franks, wrote at the close of the sixth century, *"Mundus senescit"* (the world grows old).

In the middle of the seventh century the spread of Islam closed the ports of the western Mediterranean. The Venetians dried salt from the sea and continued to carry it to Byzantium, but cities like Marseilles withered. The turning of European society in upon itself was completed. With the cessation of trade, the towns which had kept a free bourgeoisie alive by commerce began to disappear. "Henceforth," Pirenne observes, "the landed aristocracy represented the only social force. The king was ruined, but the aristocracy, with its land, possessed wealth and authority. It only remained for it to seize political power."31 Seize power it did, and the history of Europe – save for the ninth century renaissance of Charlemagne and his son Louis the Pious was the store of the land barons.

Change came in the eleventh century as a consequence of several factors. For one, Pope Urban II, to relieve political pressures on the Continent, proclaimed the First Crusade. For another, the Venetians were able to expand their trade with the East because new invasions along the Black Sea interrupted the Scandinavian commerce with Constantinople. The Flemings from the North brought fine cloth from Flanders down the Rhine Valley to meet the Lombards from the South with Levantine goods brought through the port of Venice.

Who were these men who became merchants? Pirenne guesses that "the ancestors of the merchants must have been the poor men, the landless men, and the nomadic folk who wandered about the country, working for hire at harvest time, living from hand to mouth and going on pilgrimages . . .

"Landless men are men who having nothing to lose, and men who have nothing to lose have everything to gain. They are adventurers, relying only on themselves; they have given no hostages to fortune. They are resourceful people who know their way about; they have seen many countries, can speak many languages, are acquainted with many different customs, and their poverty makes them ingenious . . . men without possessions seeking their fortune . . .

"It seems a simple matter today, an intelligent man, with nothing but his wits to rely on, may find capital to back him. But we must consider that the men of whom we are speaking had no hope of capital. They had to make their capital out of nothing . . ." 32

Capital, like everything else, is not made out of nothing, but we might give the historian his license: his exaggeration serves to emphasize the source of capital and to differentiate it from the land. Europe's capital had its origin in the savings amassed by its merchants. They built the new *bourges* of the eleventh and twelfth centuries. Known as the bourgeoisie, eventually they took their place alongside the clergy and the nobles as the arbiters of Europe's affairs – a way of life that persisted into this century.

The growth of towns offered a market for farm products, bringing an end to the era of the self-contained domain. It also fostered a marked increase in population. Thus when the old system no longer met the needs of a more advanced economy, some men were able to break its bonds. There was no dearth of hands eager to deal with anyone who would give them access to land. And the great proprietors were not averse to profiting from this demand. They were willing to accept tenants (without inquiring too closely into their origins) who would clear and work the land on a rental basis. This was one way the seigneurs could use their sole asset to meet their newly arisen need for cash. As a consequence serfdom began to wane and West and Central Europe was on the way to becoming a population of free peasants as huge areas of virgin forest and marshland were put under cultivation.

The full flowering of this system in the eighteenth century was epitomized by Thomas Carlyle's observation: "The widow is gathering nettles for her children's dinner; a perfumed seigneur, delicately lounging in the Oeil de Boeuf, hath an alchemy whereby he will extract from her the third nettle, and call it rent." This was the system Europe sought to export to the New World. The Spanish and Portuguese were successful in South America; the Dutch, English and French failed in the North. But the effort left its mark.

VII

The American Experience

Land was thought to be no problem in the New World. Presumably there was plenty of it – two continents joined by an isthmus and a sprinkling of islands. Columbus and the adventurer who followed in his wake claimed these territories for their liege lords. And the sovereigns of Western Europe bestowed vast tracts upon their subjects whom they deemed worthy of reward or worth getting rid of.

In Spanish America this land grant system is still an impediment to growth. For whatever reasons of church and state, the same stultifying influence was not to impede development in the colonies along the North Atlantic seaboard. As historian Clinton Rossiter explains:

> Despite the fact of ultimate possession in the Crown and the existence of vast and often long-lived proprietary schemes, the forms and spirit of feudal tenure never took hold in [North] America. Land was too cheap and abundant, the settlers too impatient of restrictions, England itself too advanced, and the proprietors too distant and misinformed ever to have permitted the successful transplanting of the manorial system.[33]

The colonists lived by the soil. With 8 out of every 10 men farmers and a ninth engaged in extractive pursuits, there were few who earned their way in commerce or the professions. The native aristocracy was a landed one, except in narrow commercial areas of New England. With increasing settlement, virgin land became more difficult to obtain in the older areas, but there was always frontier from Pennsylvania westward and southward. New York, where the manorial system, tenantry and speculation made it difficult for the ordinary man to get land, was an interesting exception.

Colonial land tenure conformed to no systematic pattern. Instead it was a confused jumble of clouded titles, rent wars, lawsuits and contradictory official policies. The only pervasive characteristic was the availability of cheap land that enabled private ownership to predominate and to exclude the lineaments of feudalism. "Dear land and cheap labor depressed the common man in Europe, cheap land and dear labor raised him in America. The existence of vast tracts of land and schemes for their settlement drew a constant stream of workers away from wage-earning and into agricultural self-support."[34]

Benjamin Franklin, in his *Observations concerning the Increase of Mankind, Peopling of Countries, &c.* published in 1751, made the point expressedly:

> Land being thus plenty in America, and so cheap as that a labouring Man, that understands Husbandry, can in a short Time save Money enough to purchase a Piece of new Land sufficient for a Plantation, whereon he may subsist a Family; such are not afraid to marry; for if they look far enough forward to consider how their Children when grown up are to be provided for, they see that more Land is to be had at Rates equally easy, all Circumstances considered.
>
> Hence Marriages in America are more general, and more generally early, than in Europe. And if it is reckoned there, that there is but one Marriage per Annum among 100 Persons, perhaps we may here reckon two; and if in Europe they have 4 Births to a Marriage (many of their

> Marriages being late) we may here reckon 8, of which if one half grow up, and our Marriages are made, reckoning one with another at 20 Years of Age, our People must at least be doubled every 20 years.
>
> But notwithstanding this Increase, so vast is the Territory of North-America, that it will require many Ages to settle it fully; and till it is fully settled, Labour will never be cheap here, where no Man continues long a Journeyman to a Trade, but goes among those new Settlers, and sets up for himself, &c. Hence Labour is no cheaper now in Pennsylvania, than it was 30 Years ago, tho' so many Thousands labouring People have been imported.[35]

If the colonies had no land problem, the republic had none. The Revolution had been the ultimate triumph over mercantilism and the young republic set out to encourage settlement and growth. As early as 1785, Congress provided for a rectangular survey of unsettled land, ordered offices opened for the sale of public land, and decreed that one section in each 36 be reserved for educational purposes. The Northwest Ordinance of 1787 is cited as one of the country's most important pieces of legislation. Not only did it set the pattern for the organization of new states, it recognized the yet undeveloped areas of the continent as extensions of the nation rather than as colonial territories to be exploited by the original states along the Eastern Seaboard.

The new federal government put a minimum price on public lands and fixed a minimum acreage for individual purchase. These minima were reduced successively as a result of public pressure until, in 1820, they were put at 80 acres at $1.25 per acre. For years, however, settlers had been clearing public lands and laying out farms without having bought them. Often these people were considered no more than squatters. The land was sold out from under them and they were evacuated by federal troops. Settlers formed organizations that won for them the right to purchase their lands at the minimum price without having to face competitive bidding. This "right to preemption" was enacted into law in 1841.

The Government gave some land to veterans of the Indian Wars and the Mexican War. They rarely settled their land, however, often selling their bounties to speculators at low prices. (Shades of Sulla and Caesar.) One historian complains that "liberalization of the land laws, after 1820, must not be regarded as much more than a pious gesture."[36] For until the Homestead Act of 1862 federal practices tended to favor speculators rather than settlers; the law neither limited acreage bought by one person nor required improvement of the land.

Vacillations in government policies and speculation notwithstanding, by 1890 the gap between the Eastern Seaboard and the West Coast has been filled. Henry George marked the effect of this phenonmenon some time before Frederick Jackson Turner lamented the disappearance of the American frontier. In 1883 George wrote, "land with us is still comparatively cheap. But this cannot long continue. The stream of immigration that comes swelling in, added to our steadily augmenting natural increase, will soon now so occupy the available lands as to raise the price of the poorest land worth settling on to a point we have never known . . . There is no farther West. Our advance has reached the Pacific, and beyond the Pacific is the East, with its teeming millions. From San Diego to

Puget Sound there is no valley on the coastline that is not preempted . . . There is not today remaining in the United States any considerable body of good land unsettled and unclaimed, upon which settlers can go with the prospect of finding a homestead on government terms . . .

"We may see what is coming by the avidity with which capitalists, and especially foreign capitalists, who realize what is the value of land where none is left over which population may freely spread, are purchasing land in the United States . . . It is with these absentee landlords that our coming millions must make terms. [37]

Prophetic? George was a good reporter, and he was extrapolating what he saw. Sprawled across the Great Plains was a large range cattle industry; the rich soil of the prairies supported huge commercial farms. Corn output was to soar from 800 million bushels in 1860 to almost 3 billion in 1915; wheat from 173 million to more than a billion in the same span of years. Farm capital investment in harvesters, reapers, threshers and combines that had averaged $11 million a year in the decade before the Civil War was to reach an annual $200 million at the end of the century. [38]

It was this intensified use of capital along with the cultivation of larger acreage that made greater production possible. And if the farmer produced more, it was because he could sell more. The larger market came with the growth of cities, the urban areas clustered around factories and stores. If industry and commerce grew, it was because manufacturers and merchants could sell their wares to farmers.

"These new agencies, which so powerfully stimulate social growth," George said of burgeoning industry, "tend to the specialization and interdependence of industry." "The factory," he commented, "is superseding the independent mechanic, the large farm is swallowing up the little one, the big store shutting up the small one," and he added, "corporations are arising that dwarf the state." He capped these remarks with the surprising familiar line: "population tends more and more to concentrate in cities." [39]

These observations were made in 1881. Two years later he wrote: "Without a single exception I can think of, the effect of all modern industrial improvements is to production upon a large scale, to the minute division of labor, to the giving to the possession of large capital an overpowering advantage. Even such inventions as the telephone and the typewriter tend to the concentration of wealth, by adding to the ease with which large businesses can be managed, and lessening limitations that after a certain point made further extension more difficult." [40]

It was not until 1886, however, that the Supreme Court gave dynamic impetus to the corporate form by declaring in *Santa Clara vs. Southern Pacific Railroad* that the word "person" in the 14th Amendment included corporations and therefore they could not be deprived of property without "due process of law." Yet George understood economies of scale and presciently saw the rise of the industrial state.

The trend diminished agriculture's relative role on the economic scene, but it has not lessened the land problem. In any jurisdiction today the largest property taxpayers are likely to be corporations. Mason Gaffney notes, "It has for some years been obvious to anyone who follows securities that the book value at which companies carry land has only a remote relation to is true value. The same is true of governments and institutions." This practice, he says, is "biased to hide land because land is carried at low historical cost of acquisition. Plant and equipment acquired in 1900 is really worthless today; but land acquired then is normally worth many times its historical cost."

In support of his thesis Gaffney cites such well-known firms as the paper maker Weyerhauser Company, the Hawaiian pineapple and food company Castle & Cook, Inc.; the banana merchants United Fruit; the copper producer Anaconda, and others – among them oil companies and railroads. Quoting Weyerhauser's president as describing 3.8 million acres of company land "allowed to atrophy in non-productive positions" but nevertheless "constantly rising in value," Gaffney describes the executive's plan to borrow on his rising land values to buy 1.8 million acres of more land. "Land and timber are carried at $117 million; Weyerhauser now speaks of its market value at '2 to 3 billions'."[41]

On another tack, Gaffney does some interesting financial analysis:

> Henry Ford's dream of perfect vertical integration is an American legend, leaving Ford holding land of all kinds all over the world. It also owns most of Dearborn, and lavished land on its operations. The Rouge (Ford's giant steel mill at River Rouge) alone has 124 acres of parking; the company's administration building is sited on 75 acres of landscaping. Ford has for years held 4,000 acres in Dearborn totally bare and idle. At a 1969 urban price of $40,000 per acre, that fallow reserve would come to $160 million by itself.
>
> An interesting exercise is to compare indicators of depreciable (that is, nonland) assets and total company worth. This is rough, but suggestive of a pregnant line of inquiry. Ford's prospectus of January 17, 1956, has depreciation of $90 million for 1954, about double the average for the preceding decade (presumably due to faster allowable write-off). Assuming a ten-year average tax life, which seems not too short for an industry with yearly model changes and political influence, this would mean $900 million in depreciable assets. In 1956 the market valued the company's stock at almost $4 billion. This suggests a high share of nondepreciable assets. Careful inquiries along these lines should yield striking findings.[42]

Corporate machinations in land are a study in themselves. But the conclusion is well nigh inescapable: more often that not huge corporations have found it to their profit to tie up cash for long periods of time in this non-depreciable asset. This can only indicate that land speculation can be a better business than the business itself.

Any number can play. This game is not restricted to the corporate participant, or to the real estate developer, or to the home owner. While the corporation has unlimited life – and can hold on longer – the home owner has often fared well. But then he has had to face the problem of replacing the house he has just sold – unless he is ready to retire to a small city apartment.

The real estate developer often has a hand in changing values – his own as well as his neighbor's – and it is sometimes difficult to determine the extent to which his efforts deserve reward. As distinguished from the land *user*, however, the land *owner* contributes nothing. In a true sense, he supplies neither the site nor the advantage – natural or community-made – of the location.

For example, Staten Island in New York Bay had long been the "fifth" borough of the nation's biggest city. Until quite recently it had well under 5% of the city's teeming population. Then the city built the Verrazano-Narrows Bridge, giving the island a road link to Brooklyn. In five years the number of people living on Staten Island doubled. Land values multiplied by four and five times what they had been a decade earlier.

The postwar migration of people to the sunny climes of the Southwest has written a fantastic chapter in the history of land values. The mere presence of more and more and more people has caused land in suburban Los Angeles to jump at an average fate of $800 an acre each year.

Somewhat less clear cut is the case of Thomas Hull. During World War II he bought around 55 acres of Nevada desert for not quite $6,000. When Hull built a hotel on his site near a small town called Las Vegas, there were about 8,000 people there. At recent count, the Vegas area sheltered upwards of 175,000 and Hull's acreage alone made him a millionaire five times over.

Now, not all this fabulous gain was windfall. Hull took the risk of building a hotel in a place not known as a "watering spot." He invested considerable time, money and effort promoting his oasis. Nevada's legal code that permits gambling, quick divorce and other sports, helped. Also helpful was the community system of control that kept the dice, roulette and card tables reasonably clean. Hull's neighbors who flocked to partake of these same advantages and the huge investments they made were also contributing factors.

Returning to New York we find the suburbs surrounding the city now have more people – and a higher population growth rate – than the city itself. More importantly, a majority of these suburbanites do not work, shop, or even visit New York: the suburbs are independent economically and socially.

According to the *New York Times*, there are some 775 municipalities within 100 miles of Times Square. The people who own land within this radius have experienced a rise in land values over the past 20 years of as much as 1,000%.

And yet these land owners do not seek the population growth that occasions this demand for their land. Land owers are fighting successfully against development too. Westchester County, for example, has zoned downward from a maximum population capacity in 1952 of 3.2 million to 2.3 million in 1957 and 1.8 million today.

Senator Edmund Muskie says: "Suburban government is much more responsive to the people than other American government. It's the politics of the territorial imperative, the protection of their property. That means opposing new housing and new people, anything that might change the status quo."

This responsiveness is treasured by suburbanites. What they fear more than higher population densities is the municipal corruption that accompanies land development. Officials are bribed to permit subdivisions, as one planning director put it, because "the power to zone is the power to make millionaires."

Industry is in conflict with the municipalities. Local governments can raise revenue only through the property tax, which is most productive on expensive homes and big lots; but industry needs low-income, high-density housing for workers.

Reform of the property tax is desired by industry and municipality alike. The tax is applied unequally within each municipality so that the taxes on a house selling for $30,000 may range from $207.00 in Teterboro, N.J. to $2,700.50 in Newark. Towns next to one another have different legal taxing capacities, and thus arises inequity in taxation and the provision of services. But reform of the property tax is held up by many factors, prominent among them the fact that the tax and zoning are used to exclude low income families and racial minorities.*

"For a quarter of a century, the United States has agitated for land reform around the world. We imposed land reform on defeated Japan; broke up estates in South America and South Asia; advanced new schemes in Africa; applauded European public practices that accelerated postwar city rebuilding in the Marshall Plan area; approved Scandinavian land developments that rested on socialist doctrines of public land ownership. But we never practiced what we preached and now we see the consequences in our urban backyards." This was no off-the-cuff radical preachment. It was said by Robert C. Wood, head of the political science department of The Massachusetts Institute of Technology and former Undersecretary of HEW for Housing and Urban Affairs as the Radnor lecturer of Columbia University in 1970.

**New York Times*, August 16, 17, 18, 19, 1971

VIII

The Case For Land Value Taxation

If the case for land value taxation is so persuasive, why is there not greater reliance on this source of government revenue? In perceptive, if impassioned, words, the proponent of land value taxation a century ago commented: "The truth that I have tried to make clear," Henry George wrote, "will not find easy acceptance. If that could be, it would have found acceptance long ago. If that could be, it would never have been obscured. But it will find friends – those who will toil for it; suffer for it; if need be die for it."[43]

The opportunity to sacrifice life for land value taxation has not arisen, but many have toiled for it, and perhaps a few have suffered. If the results have been less than fully gratifying, it may be because too much in the way of benefits was claimed, and too little in the way of hard evidence was offered to support such extravagant enthusiasm.

To George, every opponent of the idea was in league with the devil – the devil, of course, was the collective for those who profited from increases in land value. Unfortunately, most of those who followed George clung to the canard. Like all conspiracy theories, this one perhaps has just enough substance to perpetuate it, but it suffers serious shortcomings. Landowners are not nearly well enough organized to form such a cabal; speculative profits – large in the aggregate and sometimes handsome for individuals – have not been concentrated enough to have supported a century of concerted opposition.

Politicians are likely to be pragmatists – they will take the course of least resistance. When it comes to raising revenue, they will try to spread the burden as widely as possible, hiding as much of it as they can under diffusing gimmickry. Sales and payroll levies affect large numbers of people who may grumble but rarely mount effective protest. On the other hand, increases in land taxes fall on landlords who often are wealthy and have the muscle to make objections stick.

The objections have usually been one or a combination of the following: (1) land value taxation is difficult to administer because the land value alone cannot be readily separated from the total value of land and improvements; (2) it is inequitable because it deprives the owner of his property; (3) it would encourage such intensive use of land as to aggravate overcrowding, and (4) it would not furnish adequate revenue.

Separation of land value from that of the improvements on it involves first the matter of definition. Here "land" is used to denote *location value* which results from community action (government spending and increasing demand for space) that determines how much people will pay to use one as against other locations. This is distinguished from the results of employing capital and labor by owners to make a part of the earth's surface more economically usable.

No arcane trick is needed to make this distinction as a practical matter. The property – land and improvements combined – produce an annual net income. The investment in the improvements is measurable and the market is quite clear as to what that investment would yield were it put to comparable use elsewhere. Subtract this return to capital from the aggregate net income; the remainder is location value.

The goal is to collect that location value (or almost all of it) for the community. That current assessment practices by which we try to determine location value lack uniformity and are far from ideal should be no bar. It simply means that more education is needed and that pressure for reform should be intensified.

The question persists, however, whether the community can deprive landowners of their property by raising taxes to take all or practically all of location value. The present landowner may not be the one who benefitted from the community's spending for facilities or from the population's growth. Indeed in many cases he may have paid the previous owner for these advantages. Moreover, the price he paid for the land may also have included some anticipation of future community expansion.

It seems insufficient to rely solely on George's argument that all land titles are faulty; that ethically no individual is entitled to own a piece of the earth inasmuch as he did not produce it. The logic of this abstraction notwithstanding, there is reluctance to change the rules while the game is in progress. Some distinction has to be made between depriving the present owner of what he may have paid in sacrificing alternative uses for his money and capturing future increments for the community. Hence most proposals suggest a gradual approach: the shift of the incidence of real estate taxes away from improvements and to the land in easy yearly stages.

Usually the assumption is that city hall will not be content to collect smaller revenue than it has become accustomed to receiving. So the most frequent plan would make substantial reductions in the tax rates on improvements and finance them with steep increases on the rates on sites. Thus the amount of revenue collected would be unaffected.

Returning briefly to the administrative problem that lurks in the difficulty of determining site values, Netzer comments that

> . . . site value taxation can be ruled out on administrative grounds only if these difficulties are held to be far greater than the problems of administration under the existing property tax. Here, it should be noted that some similar problems do exist with the present form of real property taxation. Sales evidence is very thin for all types of properties which are relatively expensive and/or which are highly specialized in nature. The encumbrance problem for sites is a special case of the more general problem of distinguishing between the value of property, whether land or buildings, as presently used and value in the most profitable possible use.[44]

Later he notes:

> There *is* such a phenomenon as location rents – that is, differential returns in particular sites which are entirely independent of the nature of improvements (including not only structures but also grading, site preparation, and soil conditioning for farm uses). Location rents constitute a surplus, and taxing them will not reduce the supply of sites offered; instead, the site value tax will be entirely neutral with regard to landowners' decisions, since no possible response to the tax can improve the situation, assuming that landowners have been making maximum use of their sites prior to imposition of the tax. Thus a change from the present property tax, which tends to discourage investment in new construction and rehabilitations, to

the site value tax, which is neutral, will encourage building and rehabilitation.[45]

Whether such a tax would induce over-use of the land and further crowd central city areas opens a debate for which there is little empirical data. Proponents of the land levy argue that the necessity of the landholder to put his site to the highest and best use in order to pay the tax would bring positive benefits: It will reduce "urban sprawl," making it no longer necessary for developers to leap-frog over low density areas (presumably land held off the market for speculative purposes). It will give the slum owner incentive to demolish old buildings and, because new ones will be untaxed or lightly taxed, put his land to better use. It is touted as "a golden key to urban renewal," the way to regenerate the city automatically at no expense to the public.

These claims lead opponents to protest the possible "premature" development of land and the difficulty of preserving open space in urban areas. The necessity to meet the tax, it is feared, will drive every landowner to erect huge structures until the city is literally choked by downtown concentration.

In technical language, this argument pleads that a non-neutral tax is sounder policy than a neutral one; that the present tax, which is non-neutral in favor of low density land use, tends toward creation of a better community. In common parlance, it is a plea for the use of taxing power to bring about desired social goals. But there are other, more reliable means of achieving these ends without the side effects that often accompany fiscal devices used for other than revenue purposes.

Government has three Constitutional powers for the control and management of the urban environment: (1) compulsory acquisition of land through the power of eminent domain; (2) regulation of land use through the police power, and (3) the power to tax and spend. Unfortunately the legislation derived from these powers does not succeed in making our metropolitan areas the places we want them to be. Moreover, it creates inequities, especially between property owners and those who do not own property. As a consequence, individuals and interest groups are given economic motivation to interfere with public decision-making.

In short, the laws confer gains or impose losses on individual property owners by chance or as a result of the exercise of influence. What's worse the gains are not offset by taxes, or the losses by compensation.

When land is needed for public purposes, whether for police stations or parks, the government can purchase land forcibly through the power of eminent domain. The courts decide what is a reasonable price and the municipality acquires title. Originally used to provide land for schools, highways, and public buildings, this device has been used in recent years for what is considered urban renewal.

Although the private owner must sell his land for "just compensation," the government can exercise the power only to fulfill a specified public purpose. The financial transaction in such cases is between the municipality and the owner of the site involved, but the impact of the government's program usually extends to surrounding property values. For example, when the government purchases land for a highway right-of-way, the price paid is predicated on location values prior to the highway's construction. But as the lanes of new traffic take shape, the adjacent land left in private hands may appreciate greatly.

When the New York Thruway was completed in the mid-1950's, farmlands around North Syracuse sold for $6,000 an acre, although four years earlier the state had paid only $600 an acre for right-of-way in the area. The Santa Ana Freeway in Los Angeles caused an almost overnight jump in industrial site values. Properties abutting a section of the freeway that had sold for an average acre price of $7,800 climbed to $25,000 after the highway was built.*

This inequity arises merely from one property owner's misfortune in being in the path of the new roadway and another's good luck to be alongside it. The unfortunate owner will demand a re-routing of the highway; the fortunate will praise the wisdom of the highway department.

Other inequities arise when government exercises its police power by zoning, dictating the way land in an area can be used, specifying the size and type of structures that can be erected. Zoning regulates such things as the minimum size of a building site, the portion of it that can be covered, the height of the building, the amount of floor space as well as the minimum and maximum number of rooms, aesthetics and, most importantly, the allocation of land use throughout the community. Whatever the restrictions, no compensation is paid to the landowner for losses he may suffer.

The power to zone resides entirely in local government as authorized by the state with no check or control by any superior level of government, but subject, of course, to judicial review. In theory, the local government adopts a comprehensive plan. This is a statement of local development policy illustrated with maps. Although the plan has no legal status, some authorizing statutes provide that zoning regulations must be in accord with it. But even these restrictions are honored only in the breach.

Land owners who want to put their properties to some use more highly valued in the market than that permitted by the zoning regulations will appeal to the courts. Their applications for exceptions will allege that zoning in their cases is not in accord with the comprehensive plan developed by the local people. Further they will plead that by curtailing their options, the zoning restrictions deprive them of property without due process of law. The courts, however, generally presume the local exercise of zoning authority is constitutional and will not entertain the latter plea. More importantly, because the courts decline to consider the criteria used by the local government in making zoning regulations, the judges refuse to rule on whether these criteria were applied fairly. They have effectively invalidated statutory requirements that zoning accord with a comprehensive plan.

Restriction on the use of property without compensation is justified by the central myth of regulation – that police power can be exercised according to objective standards which promote the general health, safety and welfare of the community. In reality, zoning reflects value preferences and judgments of groups within the community. Even zoning that merely attempts to mediate conflict over land use in the tradition of nuisance law cannot be founded on an objective basis. Is a nursing home, a funeral parlor or an apartment house incompatible with a single-family neighborhood? Planning, zoning and legal decisions vary.

There are no hard and fast answers in this area. Some authorities would have it that zoning and land value taxation can – some even say "must" – work

*Reported in Nation's Business November 1954, p. 80.

in tandem if the results desired by the proponents of each device are to be achieved. There is no certainty, however, that zoning can ever be more than a political gimmick for the use of those who have the muscle. On the other hand, it is possible that once improvements are relieved of the tax burden, overbuilding would be the immediate result – one land user being uninformed of what his neighbors were planning. But this could be no more than a short-run phenomenon. In the longer span, the market would discourage people from making unrewarding investments; the prudent builder would take care to get firm commitments from responsible tenants for a fair proportion of space before he went ahead with construction.

Finally, the government's taxing and spending affects the urban environment, directly by public improvement programs, such as parks, roads and civic centers, and indirectly but nonetheless substantially by altering the rewards to enterprise. Public improvements attract complementary private investments: new roads, trunk line sewers, schools prompt residential development, rewarding the landowners in their path. The tax structure dictates the profitability of different kinds of private investments: high real estate tax rates, because they usually fall more heavily on improvements, frustrate investment in structures everywhere but at the most heavily trafficked locations.

Perhaps the most often cited example of inequitable property taxation is the case of the Seagram Building in New York. One of the first new steel and glass office buildings to go up on Park Avenue after World War II, the structure was awarded architectural honors. This was a signal to the city fathers to increase the assessed value of the building, thereby imposing a tax penalty for excellence. On the other side of the coin, landowners in the path of municipal improvement rarely have more than a small fraction of their windfall gains offset by higher taxes.

All three of the consitutional powers governments exert to control the urban condition have an inequitable impact on property values. As a consequence landowners are motivated to exert their influence on government policies and decisions. This influence takes many forms, ranging from resort to the courts to sundry types of pressures. Public actions are in no small part directed by feedback from their impact on property values. To that extent they are not determined on their merits or the contribution they will make to efficient allocation of resources.

Of course, protection of or enhancement of property values is not the only force that crystalizes individual positions on urban issues. Non-pecuniary considerations sometimes loom larger. People may seek to preserve ethnic homogeneity, a way of life, a sense of neighborhood, or to keep surroundings familiar to older persons.

The essence of this matter is that the most effective and efficient programs – by overall objective standards – may cause political and economic mobilization that block them. From a practical standpoint, programs cannot now be designed that do not take into account resistance by property owners who would lose and encouragement from those who would gain. Even if it were preferable to compensate property owners for losses rather than forego government programs, this device is not economically feasible. If instead the economic inequities could be removed from the scene, if the programs were to have no effect on property values, at least the distortions in public action caused by this factor would be overcome. There is a way: a land value tax based on the "highest and best" use permitted would neutralize the gains and losses that otherwise result from the exercise of government power. If a public improvement increased the value of a particular parcel, the land value tax would increase so that the public treasury rather than an individual property owner would benefit. If zoning restrictions in the interest of better urban planning cause a decrease in the value of a site, the land tax would decrease so that the individual property owner would not suffer.

There remains the objection that property taxes based on land value alone would not produce sufficient revenue for local governments. Netzer cites Allen D. Manvel's research as indicating "that 40% of the market value of taxable real property is accounted for by the land alone, and that land values have been rising at about three times the rate of increase in the general price level. If this is so, a land value tax at rates averaging slightly over 4% nationwide would be sufficient to replace the entire present tax on land and buildings."[46]

Stated less formally, of the real estate now taxed, there is $4 of land value for every $6 of improvement value at market rates. With the tendency of land prices to increase faster than the prices of everything else, this relationship, if it were to shift at all, is likely to shift in the direction of making the land relatively more valuable. It must be realized that both land and buildings almost everywhere are assessed at less than market value. Hence, it is reasoned that if land were to be assessed at its full market value, an annual levy of a little more than 4% of that valuation would provide the revenue now derived from all real estate taxes. Yields on prime quality investments in today's market are significantly higher than 5% (larger than one-twentieth of market value). Thus if land is competitively priced with other investments, its annual return should be substantially more than the 4% – plus sought in land value tax.

IX

The Cycle Mystery

Those who appreciate the central importance of location value often wax enthusiastic about land value taxation. Their zeal sometimes has led them to extravagance. The sweet reasonableness of paying for community services out of the value these activities create, the propriety of thwarting the private collection of unearned increment, the virtue in preventing the dislocating effects of speculation all excite ardent support. Unfortunately this ardor has provoked claims of far-reaching benefits certain to follow the adoption of the tax.

For Henry George, community collection of that portion of production imputable to the land was more than an ethical imperative. It was the means to ameliorate, if not eliminate, poverty; it was the way to lessen the severity of the periodic spasms that afflict industrial economies.

Empirical evidence to clinch his arguments may be conspicuously absent, but it should be obvious that the land problem is not confined to farm, mine or oil well. The problem embraces all production and all exchange; it is at the heart of our urban crises. The extent of the land problem may not be clear, but it can be inferred from the classical analysis of production as the interaction of land, labor and capital – an analysis that has withstood challenge despite semantic obfuscations.

The inputs of land, labor and capital are readily discernable. Not so easily seen is the distribution of the output in exchange for the contribution of each of these inputs. The distribution pattern is obscured by the veil of money. Economists may talk about "real" output, the physical quantity of goods produced, or "real" income, the amount of actual things you can buy with a paycheck. But we are paid in money; we calculate our estate in money; we measure our well-being in money terms. Consequently it is difficult to think of the distribution of the production pie, who will get how much of the pile of things turned out.

Perhaps it is this difficulty that has diverted our attention to consideration of national accounts expressed in money, like gross product and aggregate income. This preoccupation has led to the manipulation of the spending by the national government and of the money supply. The thrust has been the attempt to avert cyclical business behavior. The idea is to keep business activity expanding so that, whatever may be the maldistribution of goods, there will be prosperity enough to trickle down into every corner so that even the slothful and the ill-equipped will benefit.

George's approach was more direct, if more difficult. Like Karl Marx, George struggled with the problems of distribution. Philosophically, George saw the resources of nature as the birthright of all men and condemned a system that allows some men to put a fence around nature's gifts. These fences contribute nothing to production, he observed. Yet they enable those who erect them to exact a price from labor and capital for permission to produce.

Here the differing character of land and natural resources on one hand and labor and capital on the other becomes significant. The supplies of labor and capital are responsive to demand. Greater returns to them will bring more into the market. That is not to say the birthrate will fall or rise with higher or lower wages. But more wages will attract more willing hands; it will draw women out of the kitchen; it will entice men away from scholarly or leisurely pursuits. Higher interest may not product more tools and plants immediately, but it will induce more earners to save and to risk those savings in the productive process.

Land, however, remains unaffected by the return for its use. A rise in rent will not cause more land to be made – save what the speculator might thus be induced to make productive. More important, a fall in rent will not cause any landlord to take his plot of ground off the market.

These characteristics are particularly important when considering the effects of speculation. Speculation is the buying or selling of an item in anticipation of a price change that will result in a net gain. The speculator is betting on events that will alter market conditions. He buys corn when he has reason to believe a blight will reduce supply; he contracts in advance to sell wheat when he believes a bumper crop is in the offing. In either case – government price interference and ever-normal granaries apart – even when the speculator has gauged the market correctly, his rapacity faces limitations. Should corn prices be forced high enough it will pay to import corn from distant fields; should wheat prices be pushed too low to make harvesting worthwhile, farmers may elect to burn or plow under their crops.

Speculators in land confront no such handicaps. Increasing population and rising production are the events that inexorably jack up land prices.* The land owner need only sit and wait. Those who will not pay the higher rent can find no substitute. They must either pay what is asked or withdraw from the market.

The current literature on the subject betrays some ambiguity. It quite generally acknowledges the ills attendant upon holding land vacant or using it below its potential. It deplores the presence of slums. It decries urban sprawl, the result of business and residential structures necessarily having to "leap frog" over poorly used sites to find space on the urban periphery at affordable cost. It complains about the attendant problems of lengthened transportation facilities, extended sewer and stretched utility lines. Yet there is little acceptance of the idea that speculation in land might have more profound effects.

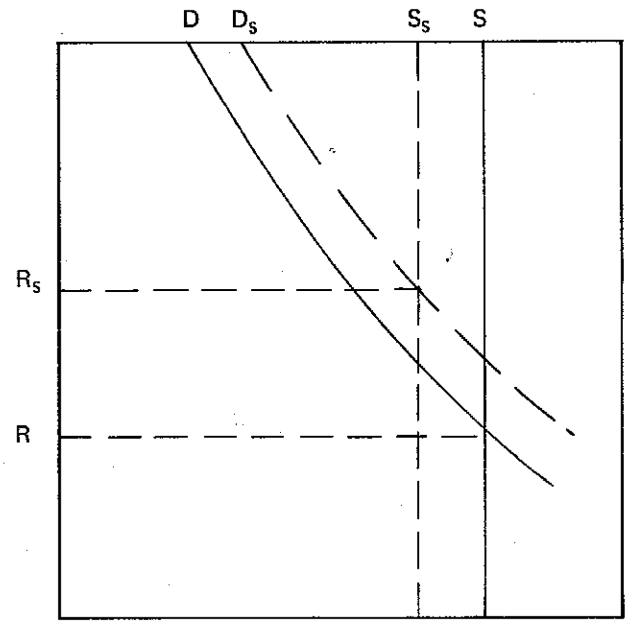
Logically, George reasoned that in the division of the real product among land, labor and capital, if more went to the holders of the land, less would be left for labor and capital together. He observed that in industrial countries, the steady rise of rent creates confident expectations of a further rise. Thus land is held not only for use but for speculative gain. Now, the contribution to production made by a given site is the rent imputable to it (R on the chart).

If speculation pushed rent above what can be imputed to the land (Rs on the chart), the excess must come out of what would originally be imputable to labor and capital in real terms. When real wages and real return for the investment of capital are pinched enough to hurt, these factors, in self defence, tend to withdraw from the productive process. Such slackening of production must travel through the interwoven network of industry and cause a reduction of

*Land values rose about three times as fast as the general price level from 1956 to '66, according to the National Commission on Urban Problems, *Three Land Research Studies* (Research Report No. 12, 1968). The Douglas Commission estimated the land price rise as six times that of the wholesale commodity price index between 1955-'65.

aggregate demand. This is the familiar recession of business activity. George offers this interpretation of the cycle:

The Effect of Speculation on Land Value



The economist uses the supply-demand chart to show how rent is determined. Demand for land (D) — like demand for any item — has the usual downward sloping configuration, i.e. more space will be demanded at lower than at higher rents. The supply of land — excepting the rare occasions of land fill, etc. — is fixed and, therefore, is represented by the vertical line (S). These are the conditions that would obtain if only those who sought to use land were to bid for the land extant. Speculation will mean that some land will be held out of use (or at least not put to its highest and best use). Consequently not all land will be available to those who are bidding. The effect is a shift of the supply line to the left (Ss) — a lessening of available supply. At the same time, speculators who would buy sites to hold for higher prices bid for land in competition with users. These added bidders tend to move the demand line to the right (Ss). The result is the higher rent Rs vs. R.

> The period of depression thus ensuing would continue until (1) the speculative advance in rents had been lost; or (2) the increase in the efficiency of labor, owing to the growth of population and the progress of improvement, had enabled the normal rent line to overtake the speculative rent line; or (3) labor and capital had become reconciled to engaging in production for smaller returns. Or, most probably, all three of these causes would co-operate to produce a new equilibrium at which all the forces of production would again engage, and a season of activity ensue; whereupon rent would begin to advance again . . .[47]

George was considering the effect of an increase in "real" rent and a consequent decline in "real" wages and return to capital. "All trade, let it be remembered, is the exchange of commodities for commodities, and hence the cessation of demand for some commodities, which marks the depression of trade, is really a cessation in the supply of other commodities."[48] This concept is certainly reminiscent of Say's Law.* And the veil of money has obscured Say's Law almost to the point of extinction. It is one thing, however, to protest that Say's Law doesn't fit an industrial credit-market economy; it is quite another to insist there is no truth in what he had to say. The refutation of Say by Aftalion and Keynes perhaps was not so much a rebuttal of Say's observation, but of what economists had tried to infer from it. However, in misleading people to believe Say was wrong, the followers of Keynes risk creating the illusion that real demand can come into being independently of production.

It is essential to distinguish real demand from money demand, even though the market does not differentiate between them. Real demand is the desire for goods backed by the ability to pay for them with the supply of other goods; money demand is the same desire backed by paper that may or may not represent the supply of anything.

Were we to suppose there were no central bank to distort the money supply (circulating currency and private demand deposits) and no government bonds to deflect savings away from investment, money would expand as commercial entrepreneurs borrowed and contract as these debts were retired.** It would be the banker's responsibility to keep commercial borrowing aligned with production. Otherwise new money coming into the marketplace would not be met by additional goods – the classic condition of too much money chasing too few goods would create inflationary pressures.

In our modern, presumably sophisticated, use of the banking mechanism, bank loans are made on the basis of the "security" provided by the borrower. This "security" is usually some business asset in the borrower's possession. In theory the "asset" is income-generating property or represents some income-generating activity and hence is presumed to assure the production of goods. In practice, the security is paper that rarely has anything to do with the purpose for which the money is borrowed. Thus the advance of credit most often bears little relation to the expansion of production. The banks become engines of inflation.

One of the most serious areas where this process occurs is the bank financing of real estate operations. To the extent that commercial bank credit directly or indirectly supports any real estate deal from financing a summer cottage to a

*See Notes to Chapter II.

**See Notes to Chapter IX.

high rise apartment or office building – it impacts upon the price of the site. If our reasoning has been correct and the rent of land – and therefore its capitalized market price – is not a function of the production on it but rather of the externalities that give the location its value, the rent is neutral as to the rise and fall of production. Hence increases in rent occasioned by speculation are not accompanied by increases in output. To the extent that payment of such inflated rent is financed by commercial bank credit, the balance between bank created money and production is adversely affected.

In a remarkably perceptive paragraph George wrote:

> I do not mean to say that there are not other proximate causes. The growing complexity and interdependence of the machinery of production, which makes each shock or stoppage propagate itself through a widening circle; the essential defect of currencies which contract when most needed, and the tremendous alternations in volume that occur in the simpler forms of commercial credit, which, to a much greater extent than currency in any form, constitute the medium or flux of exchanges; the protective tariffs which present artificial barriers to the interplay of productive forces, and other similar causes, undoubtedly bear important part in producing and continuing what are called hard times. But, both from the consideration of principles and the observation of phenomena, it is clear that the great initiatory cause is to be looked for in the speculative advance of land values.[49]

Arthur Burns* is perhaps today's most knowledgeable economist on the subject of business cycles. Here is how he describes the advent of recession:

> First, as the expansion continues, the slack in the economy is taken up . . . unemployment declines . . . the ratio of [bank] reserves to deposits keeps falling . . . deliveries [of goods] stretch out or become less dependable . . . The pecuniary expression of mounting shortages is a general rise in prices – of labor, credit, raw materials, intermediate products and finished goods . . . The shortages are real and their physical expression is a narrower scope of the expansion itself . . . Although aggregate activity is still growing, it can no longer maintain its initial pace.
>
> Second, the advance of prosperity tends to raise costs of production and therefore threatens profit margins – unless selling prices rise sufficiently . . .
>
> Third, the increases of construction costs, equipment prices, and interest rates that are generated by the expansion process gradually become of more serious concern to the investing community . . . Home builders, in particular, are sensitive to a rise in construction and financing costs, partly because their activities are largely financed by borrowing and partly because interest charges are a very considerable fraction of the total cost of operating a dwelling. *Experience shows that contracts for residential construction typically turn down before commitments for any other major category of investment.* [Italics added] Business orders for new factories, commercial buildings, and public utility plants still keep rising for a time . . . but as the expansions of economic activity becomes more intense, they too begin to feel the pressure of rising costs . . .

*Former head of the National Bureau of Economic Research, Dr. Burns is chairman of the Federal Reserve Board.

> The rise in construction, equipment and financing costs . . . impinges so broadly on the investing class that it would eventually check the investment boom even if prosperity were diffused uniformly over the economic community. However, this is not the case . . . there are always some firms that find it hard to advance selling prices and their number tends to grow at an advanced state of the expansion . . . With the rise in unit costs of production continuing across the business front, more and more firms, therefore, find their profit margins are becoming narrower, thus offsetting the influence on profits of rising sales or reinforcing the influence of declining sales . . . the proportion of firms enjoying rising profits shrinks, although profits in the aggregate still continue to advance.
>
> . . . the narrowing scope of expansion as full employment is approached, the rise of unit labor costs, the rise of financing costs, the rising costs of new capital goods, the spread of these cost increases across the economy, and the shrinkage in the proportion of firms experiencing rising profits – tend gradually to undermine the expansion of investment . . . With investment commitments declining, but actual expenditures still rising, backlogs of unfilled orders for capital goods and of uncompleted contracts for business construction must sooner or later turn down. Meanwhile, uncompleted contracts for residential home construction have, in all probability, already been declining for some time. The decline in these several backlogs induces reductions in orders for raw materials and parts and the reduced pressure on supplies in turn serves to stabilize, if not lower, prices. Since many consumer trades can now count on faster deliveries, the orders placed with their suppliers are likely to turn down as well . . . while inventories on hand still keep rising, investment in inventories begins declining . . . business expenditures in fixed capital will themselves gradually move to a lower level . . . The growth of consumer spending, therefore, is retarded, if it does not actually stop. As these adjustments proceed the balance between expanding and contracting activities tips steadily toward contraction.[50]

From this description, one might get the impression that economic expansion chokes itself with Freudian-like compulsion. Indeed, some observers have written seriously about the "death-wish of capitalism." The Burns testimony is strangely silent as to the role of speculation and its possible effects. There are two hints. He writes at one point that "exaggerated notions concerning the volume of sales that could be made at a good profit have led to overstocking or overbuilding, so that prices come under pressure. Errors of this type occur at all times, but are likely to be bunched when enthusiasm has infected large and widening circle of business men." At still another juncture he comments on curtailed capital spending by business men who "have become concerned about prospective profits or have come to feel that construction and financing costs will recede before long from the abnormal level to which they have been pushed by prosperity."[51]

A less-known toiler in the statistical vineyard, but no proponent of the land tax, Homer Hoyt, offers pertinent data. From his study of the real estate market in Chicago from 1832 to 1932, he observes:

> Summarizing the various stages of the real estate cycle . . . show[s]

> how increased demand for buildings as a result of improved business conditions and population increases produces an ever-greater increase in gross rent, . . . how that leads to an even higher percentage of increase in building operations, and how that finally produces an even more extraordinary rate of increase in the number of lots subdivided, accompanied by a rapid growth in the amount spent for public improvements.[52]

Later he comments: "Soon after the peak . . . the land market enters a dull phase. The property-owning community is still permeated with rosy dreams that filled the air on the great upswings in land values, financial institutions still make loans freely on the peak level of prices, and nothing has happened to disturb the public confidence in the stability of the values that then prevail. It is generally observed, however, that the period of rapid advance is over, and there is no rush on the part of investors to buy land before it rises higher."[53]

After describing the sluggish real estate market in some detail, Hoyt remarks: "Such was the situation that prevailed in the latter part of 1836, 1856, 1873 and throughout most of the entire year of 1891, 1892, 1927, 1928 and 1929 . . . Up to this time there has been no major recession in general business activity, and real estate has grown for reason peculiar to itself. The end of the general period of prosperity in all lines is approaching, however, and on some red-letter day in 1837, 1857, 1873, 1893, or 1929 a crash on the stock market rudely shatters the dream of never ending profits."[54]

Hoyt places the real estate market top in late 1856. The National Bureau of Economic Research, the accepted arbiter in such matters, records the overall business cycle peak as June 1857 followed by an 18-month contraction. Hoyt cites 1873 for real estate and NBER pinpoints October of that year as the beginning of the 65-month post-Civil War depression. Hoyt mentioned the entire years of 1891-92; NBER, January 1893 and 17 months of contraction. Hoyt, 1927-29; NBER, August 1929!

Hoyt's study covers only a limited geographical area and a period when there was either no central bank or a mere fledgling one capable only of narrow and unsophisticated counter-cyclical manipulations. But was it coincidence that speculative excesses in a natural resource – copper in this case – precipitated the Panic of 1907? Did the Florida real estate bubble that burst in 1926 and the end of overbuilding in New York and other cities soon thereafter not prompt the Federal Reserve's easy money policy of 1927, thus postponing the stock market crash until October 1929?

The facts are often more complicated then the polemics. No one has done an in-depth study of land values nationwide. Moreover, there is not easy access to the links between real estate operators and their channels of finance, which must rely on bank-created dollars. There are too many coincidences for these questions to be ignored, but too little data for them to be answered. The area of relation between land value fluctuation and changes in the money supply as well as industrial output should be a rich vein for statistical excavation.

X

Reform for Our Time

Philosophers ponder eternal verities, ask whether there are truths for all time or only supposed solutions to immediate problems. Men of affairs may be fascinated by such exercise of intellect, but of necessity prefer usable answers to questions they face.

Pretending to have positive answers to the questions of our day may affront good sense – particularly if the contemporary Delphic oracle, the computer, has not been consulted in the language of the "model." With this caveat in mind some modest claims might be made for land value taxation. The benefits expected from shifting realty taxes from improvements to location values can be summarized:

. . . Urban redevelopment would receive a great boost at no cost to the vast majority of taxpayers.

. . . Taxing sites more heavily and buildings lightly if at all would be both a prod and an incentive – stick and carrot – for the replacement of slum buildings with better housing. To assume low-cost housing would be shoved aside for office buildings is to imagine that investors would be so foolish as to create business space far in excess of demand. For no longer would they be willing to erect structures that remain partially empty for years while they rely on increasing land values to bail them out.

. . . Because of freedom from taxation on improvements, more new homes would be built and more existing ones refurbished, stimulating construction activity and giving slum dwellers a better chance to escape. Moreover, workmanship and materials would be improved as quality would no longer be penalized (good buildings taxed more heavily than poor ones).

. . . With land taxed on the basis of its highest and best use, neither businessman nor city dweller would need to "leap frog" over speculatively held sites. As municipal costs – transportation is the outstanding example – are multiplied by distance, the reduction of urban sprawl would save city governments billions of dollars.

. . . New construction and other increases in business activity within the city would enlarge the local tax base and make cities less dependent on state and federal aid. The community would be able to make rational allocation of resources instead of being the object of fiscal federalism.

. . . Taking the profit out of premature subdivision on the fringe would result in a gain of open space for ecologists and sportsmen.

These are usable answers to the question: "What's to be done with the property tax?" But reform, if it is to be significant and effective, must be more than mere enthusiasm for change. It must have, as well, more than pragmatic sanction. It must be grounded in equity, lest it be no more than gimmickry in the service of a plea to "Throw the rascals out!"

The history of American reform has been a jumble of Crusaders seeking to dislodge Saracens from office; a parade of drummers selling nostrums they little understood to a public that was credulous but yet too canny to buy the package. Because money and credit have never been widely understood in this country, there have always been clever men to take advantage of mismanagement and ignorance. Their victims have been a constant prey to knights in shiny bimetalism who would shield the righteous from a cross of gold, to money managers who would relieve the populace of the painful necessity of self-management. The knights' lances have been shown to be little more than phony rhetoric, and the managers have turned out to be nothing more than inept manipulators confounded by conflicting dogma.

Through almost two centuries Americans have continued to cherish the Jeffersonian dream of individuality and independence while living the Hamiltonian reality of increasing government and centralized authority. By one-man-one-vote dicta and equal opportunity rulings reinforced with federal police power, they have sought to activate democracy in the midst of institutions that foster oligarchy and support special privilege. They beat the antitrust drum in the belief they are furthering the American ideal of competition. Here they are caught in a closed circle. The successful competitor gains an ever larger share of his market. His growth brings economies of scale, and soon he has driven away most of the others. Oligopoly if not monopoly ensues. No wonder corporate managers, feeling themselves harassed by the Justice Department, complain they are being penalized for success. Perhaps in an industrial society perfect competition cannot be even dreamt. Certainly the nature of packaged goods and complicated gadgetry does something to consumer sovereignty.

The last attempts to redress severely criticized inequities and imbalances in America came early in this century. They relied on the politically acceptable planks in the Populist platform of the late 19th century. The banks were cajoled and coerced into becoming regulated public utilities; the courts, where they were believed in default as public tribunals against the mighty corporations, were supplanted by agencies and commissions to act as prosecutors, judges and juries. The result has been the development of a bureaucracy alienated from the people and divorced from the American dream. The institutions that had been relied on to express and execute the public will have been turned to the manipulation of public opinion and used to impose the ideas and programs of a select few.

Corporate concentration, consumer complaints and political irresponsiveness are but symptoms of deeper deterioration. This sorry state comes not from our having embraced the wrong philosophy so much as our having pursued the Jeffersonian ideal while living the Hamiltonian program. We insist on remaining free and independent Americans but continue to demand and enjoy the fruits of big business efficiency and growth. We want the glory and the power both. Yet our institutions march us inexorably toward power at the expense of liberty.

> We honor liberty in name and form . . . Liberty! It is a word to conjure with, not to vex the ear in empty boasting . . .
>
> We speak of liberty as one thing, and of virtue, wealth, knowledge, inventions, national strength and national independence as other things. But of all these, liberty is the source . . . where liberty rises, there virtue grows, wealth increases, knowledge expands, invention multiples and in strength and spirit the freer nation arises . . . where liberty sinks, there virtue fades, wealth diminishes, knowledge is forgotten, invention ceases, and empires once mighty in arms and arts become a helpless prey . . .
>
> It is not enough that men should vote; it is not enough that they should be theoretically equal before the law. They must have liberty to avail themselves of the opportunities and means of life; they must stand on equal terms with reference to the bounty of nature. Either this or the very

forces that progress has evolved turn to powers of destruction. In allowing one man to own land on which and from which other men must live, we have made them his bondsman . . . This is the subtle alchemy that is bringing political despotism out of political freedom, and must soon transmute democratic institutions into anarchy . . .

. . . the new powers born of progress . . . will either compel us to a higher plane or overwhelm us, as nation after nation, as civilization after civilization have been overwhelmed before. It is the delusion which precedes destruction that sees in the popular unrest with which the civilized world is feverishly pulsing only the passing effect of ephemeral causes. 55

It should be obvious to the most casual anarchist that industrial America, no matter how much it might cherish the libertarian dream of its first great democrat, can no longer strive toward his vision by way of the lesser government and simpler economy he prescribed. Yet to give up the search, because new means must be found, would be to encourage the sclerotic trends so evident in our body economic and politic.

Our major problem is said to lie in the cities. Their congestion, their filth, their decay and their financial embarrassment are visible ills. Clearly, if we have not in the past asked too much of city fathers, we do so now. Hardly, a municipal administration in the nation seems equal to the tasks before it. The lineaments of urban decline have been repetitious; wars and plagues aside, cities everywhere have declined in the familiar fashion. The center city will resist deterioration for some time. Its location advantages enhanced by developed services – particularly all the roads that lead to the hub – will go on attracting large numbers of people. Their continuing presence acts as a bonding agent for the business and governmental activities that remain in the urban complex. But that complex becomes increasingly ill suited for living without costly insulation from the dilapidation, squalor and deprivation that increasingly surround it. And while the decay erodes the tax base it multiples the demands upon the civic purse.

The growth and decline of the city is not invariant. But throughout history urban centers have risen and fallen in almost monotonous cadence. It would seem to have some relation to the cyclical perspective of history. This approach, however, is suspect. After his exhaustive study, Toynbee asserts that "though all other civilizations whose history if known to us may be dead or dying, a civilization is not like an animal organism condemned by an inexorable destiny to die after traversing a predetermined life curve. Even if all other civilizations that have come into existence so far were to prove to have followed this path, there is no law of historical determinism that compels us to leap out of the frying pan of our time of troubles into the slow and steady fire of a universal state where we will in due course be reduced to dust and ashes."56

Perhaps there are no laws of historical determinism. There are instead the repetitious responses of men and women to challenge. In every time and every clime, men displaced from the land have come into the cities. Earlier it was slavery, changed markets as a result of war, foodstuffs supplied by conquered outlying areas, altered farming practices that made large estates more practical than small farms. Now it is technology. In either case, it is the displaced who trek to the city to fill the places left by those who have moved upward and outward, to occupy the buildings that have almost negative economic value, hence are lightly taxed, on undertaxed land. In either case, these urban poor are as hungry, as poorly housed and as restless. In either case, their plight becomes the problem of the urban administrator. And his repeated answer is to dispense largess – largely at the expense of the middle class.

From the Spartan Agis and the Roman Gracchis to our own day the pattern has been the same and the process has been irreversible. Repeated attempts to redistribute land have been as futile as would such an effort now. But never has the alternative reform been tried. Never has the rent imputable to the land been collected and used for community purposes.

The powerful resistance offered by those now receiving this unearned increment is understandable. But this vested interest should not be permitted to obstruct the larger public interest. For the community collection of the land rent – by the simple device of shifting the realty tax to location value – would in a fiscal sense give the land back to the people, to *all* the people.

Appendix

Who Was Henry George?

Henry George's writing and speaking career began in San Francisco at the close of the Civil War; it culminated with his death near the turn of the century at the height of his second campaign for mayor of New York. A crusading journalist in the American tradition, he made a considerable impression on this country and had even more influence abroad. Today his ideas are attracting attention again as people search for ways to alleviate urban deterioration. In their quest for a new ethic in dealing with poverty they are turning to the spirit of George's works.

Born in Phildelphia in 1839, when Martin Van Buren and the Albany Regency held the political reins in Washington, George came of age when Lincoln gained the Presidency and lived to see the nation prepare to meet the industrial challenge of the 20th century. His boyhood was heavily influenced by Jeffersonian ideas of individual freedom and equality of opportunity. As a schoolboy he showed an independence of thought unusual for the son of an Episcopal vestryman, even taking issue with the minister of his family's church for refusing to repudiate slavery.

George and his friends formed a literary club that gave attention to Emerson along with Byron. But at 15 he was off to sea. Signing on the *Hindoo* as a foremast boy, he sailed from New York to Australia, India and back. Almost 17 when he returned to Philadelphia, George became an apprentice typesetter.

About a year later, in December 1857, George shipped out for Oregon; he jumped ship in San Francisco – a not uncommon practice in those days. He was to spend the better part of the next two decades in California. He tried his luck in the Mother Lode in British Columbia and as a shopkeeper there.

In 1860, George joined the typographical union as a journeyman. Later as a printer on the *Alta California* newspaper, George took the occasion of Lincoln's assassination to set his own feelings in type and slip the essay into the paper. The effort earned him a job as a reporter. Afterward he alternated between Sacramento and San Francisco, between printing and writing jobs.

The San Francisco *Herald* sent George to New York in 1869 to procure an Associated Press franchise. Failing this, he tried to compete with the news service by sending his own dispatches from the East. Western Union was not about to extend preferential news rates to George, whom it must have considered an upstart competitor to one of its bigger and better customers. The experience convinced George there were such things as "natural" monopolies which should be government owned. Despite this setback he later participated in the founding of the American Press Association, which broke the monopoly of the AP newspapers on the West Coast.

The time spent in the East contributed to George's awareness of social problems. He had not been in New York since 1856, and the changes in the intervening 13 years had been for the worse. The Civil War years and growing industrialization had altered the city in a manner that made a deep impression on him. He was never to forget the depression he felt on seeing the slums then beginning to grow in the eastern cities of this country.

Back on the West Coast, George edited the Sacramento *Reporter*. He also wrote for the San Francisco *Chronicle*, the *Daily Times* and the Sacramento *Bee*. In 1871 he published a 48-page pamphlet, *Our Land and Land Policy*. In it Henry George began to use economic ideas as tools of social commentary. Value accrues to land because of its scarcity and irrespective of man-made improvements on it, he wrote. Increase in land values, he continued, does not add to the community's production; an increase in land value affects the distribution of goods, not their output. Increases in land values gives owners more purchasing power while exacting greater payments from users of such land. A land grant system that gives such advantage to some, George saw as incongruous with democracy.

The same year, George started the *Post* – San Francisco's first penny newspaper. In its editorial pages he was to mold the philosophy and develop the arguments he would present in *Progress and Poverty* nine years later. He campaigned for better treatment of seamen; he urged shorter working hours and championed the laborer's opportunity for self-improvement. "The government," so ran a *Post* editorial in 1871, "should be restricted as nearly as possible to the preservation of order and the administration of justice, leaving everything else to private enterprise – in a word it should only do for the people what they cannot do for themselves."

George advocated taxing land values in lieu of all other levies. It must be realized that in the late 19th century, property taxes were the main source of government revenue at all levels. These taxes were imposed on practically everything. In California – the area of particular interest to the editor of the *Post* – the property tax was levied on land and buildings; on capital equipment, and on personal property, both tangible goods and financial assets.

The argument for land value taxation was set forth in the *Post's* editorial columns as they refuted objections raised by other newspapers. For example: The *Examiner* saw George's land tax as simply a thrust against monopoly. The *Post* replied that, pleased as it would be to break monopoly, it sought to do more; with land value taxation it would not only prevent monopoly from recurring, it would provide the community with easily collected and generous revenue.

Again, when the *Chronicle* questioned the singleness of George's approach (why tax land alone and exempt capital; why levy on the Central Pacific's strips of land and not its strips of steel and rolling stock?), the *Post* answered: "Land values do not represent wealth in action as capital values do, but represent the power to collect from someone else." The approach was not to burden labor or impede capital formation, but to take the increment that came as the result of neither the exertion of labor nor the use of capital.

The land problem in California was complex. It was not only the tapping of natural resources by mining interests that appeared to give a corner on nature's bounty to a relatively few people. There were also the railroads' land grants that made the carriers speculator-monopolists and, therefore, prime targets. Other big land holders compounded the question. Many large tracts were held by individuals – some of the grants with Spanish and Mexican origins – who wanted neither to give up their holdings nor to pay taxes in support of the state while landless newcomers were untaxed.

But George wanted taxation according to opportunity to produce, not according to industry, initiative or ingenuity. His early scheme set forth in the *Post*, however, would have exempted from taxation the first $500 of land value in cities so as to favor home-lot owners and to encourage home building.

The *Post* prospered. George made money out of crusading against monopoly and undeserved privilege. He stood for the laborer rather than labor organization, against abuses labor suffered from monopolistic practices rather than against capital or the capitalist. Some of his words have a remarkably timeless ring. Read his comment of November 1872: "The American people punish honesty and reward corruption. Get money, get power – get it no matter how it is got – that is the lesson we are teaching our children, even while we are teaching them to repeat old phrases we have robbed of all meaning."

By May of 1875, George was expanding his publishing operation. Contracting heavy debt, he bought a new press and started another paper. But his timing was poor. The East had already begun to feel the post-Civil War depression. When the financial panic of 1875 hit San Francisco, it swept George out of the newspaper business.

The following year George was given a political sinecure; he was appointed state inspector of gas meters. This monotonous job kept him and his family going and had the virtue of allowing him time to write. A diary notation of September 18, 1877 reads simply: "Commenced *Progress and Poverty*." He finished the book in 1879, set some of the type, and published the 563-page volume himself.

George's *Progress and Poverty* became a best seller. According to contemporary scholars, "Over two million copies of his book were sold in America alone, and on the dusty plains of Kansas, in the slums of Liverpool and of Moscow, on the banks of the Ganges and the Yangtse, poor men painfully spelled out the message of *Progress and Poverty* to grasp a new vision of human society."[57]

The book's success rested on many facets. Its reasoning was simple and cogent on a difficult subject; its central thesis was valid; its ethic, irrefutable. Written in the idiom of the late 19th century and recognized as a masterpiece of polemic literature, the work is not without faults. Nevertheless, Joseph Dorfman considers its influence on economic thought has been "subtle and extensive."

Initially George asserted historical and statistical investigations were not essential to economics, which should be able to ascertain truth by logical analysis and common sense. With this technique George developed a theory of value that inexorably led to his theories of land monopoly, land speculation and depressions. He was, in fact, one of the first to offer a cohesive explanation for the business cycle in an industrial community.

Once his ideas were established, George's foray into social theory was logically necessary: abolishing land monopoly would result in equality of opportunity – the ideal of Jeffersonian democracy. Government would become merely administrative: "We would reach the ideal of the socialist but not through government repression. Government would become the administration of a great cooperative society."[58]

Ironically George's purpose – to offer a cure for poverty and depression – has been overshadowed by *Progress and Poverty* as a political and economic analysis. In the United States property owners fought against its threat to their position. Economists were disturbed by it. Dorfman says, "George's emphasis on the ethical basis of any economic system brought a broader outlook to the study of that subject. After him it was difficult, if not impossible, to dismiss economics without relating it to the structure of the society within which it operated."

This effect on the economics profession was short-lived, however, largely because the land value tax movement failed to achieve substantive political and legal change. Political effectiveness eluded the movement because it was neither populist-socialist nor conservative. "Marx viewed George's book as significant because it was a first if mistaken attempt to loosen the bonds of orthodox political economy. However, he considered *Progress and Poverty* a 'last attempt to save the capitalist regime. Of course this is not the meaning of the author, but the older disciples of Ricardo – the radical ones – fancied already that by the public appropriation of the rent of land everything would be righted.' The single-tax proposal, in other words, belonged to 'bourgeois political economy' and was in the last analysis a 'frank expression of the hate which the industrial capitalist feels for the landed proprietor who appears to him as useless and superfluous in the system of borgeois production'."[59]

When George ran for mayor of New York City in 1886 under the United Labor Party banner, he had Socialist support. The opposition depicted him as a communist and nihilist, but George lost only by a narrow margin.

In time, "whatever conservative following George's free-trade views had recruited had fallen away. Soon after, he and the Socialists parted company, with the Socialists using conservative arguments against him. C. Osborne Ward declared that land taxation sufficient to provide fully for governments needs would lead to anarchy, if not to violence and bloodshed. The enormous class of landowners would rise in rebellion. 'Better to suffer the old system, bad as it is,' he said, 'until men see their way clear to introduce the more humane and democratic finality' to replace the 'obnoxious competitive system.'

"So George's theories, popular as they were, remained a great educational influence without a political party to put them into action."[60]

Thus George was relegated to political obscurity. The attitude of academicians to George's work, however, varies and reveals some of the fundamental fissures in the economics profession. The question remains: Even though George's movement foundered politically, why did economists not keep his analysis in view?

Writing *Essays in the History of Economics*, George Stigler offers a partial answer in a chapter titled "The Politics of Political Economists." Economists, he argues at length, tend to be conservative, more conservative than the educated in general. Here "conservative" means, among other things, the individual is to be free of controls over the allocation of privately-owned resources.[61] Hence, political economists have been hostile to reform of the distributive mechanism upsetting the status quo – the essence of George's work.

Furthermore, economists have a habit of justifying their conservatism by reference to the "scientific tradition," which tried to explain how the economic system works but not whether it should work the way it does. Finally, George was not a member of the economics coterie: scholars who wrote on economics in the 19th century tended to publish their work in a few specialized journals;

most of them were academicians or in government employ, and not a few were independently wealthy. Henry George was well informed of the trends in economic thought of his day, but he committed the apostasy of seeking political effectiveness for his ideas.

George's experience at the University of California sharply outlines his position as an intellectual maverick. In 1877 (two years before publication of *Progress and Poverty*) there was talk of the founding of a chair of economics at Berkley. George had told his wife that he "wished for no title in the world, unless it was that of 'Professor'."[62] But when he was invited to lecture at the university, he did not choose to utter soothing platitudes to the assembled students and faculty.

> The main trouble with economics, specified George, lay in the fact that theory fell short of the natural usefulness of the subject . . . What a study, what a tool for the welfare of state and nation, mused George, political economy ought to become.
>
> He assured the students that it was not a dismal science at all, but truly, a 'simple and beneficent study' available to everyone. The old writers had indeed gone in for needless hair-splitting; they had neglected the most important of all economic questions, the recurrent phenomenon of depression. Worst of all, economics had arrayed its laissez-faire ideas against improvements and reforms in behalf of the working class.
>
> All this could be changed, and must be . . . [63]

George believed his lecture had been well received by the students, but it was met "by the authorities with a polite and dignified quietness that made him think he might not be invited to lecture again."[64] George was right. The academic world was not ready for criticisms which, a hundred years later, are only beginning to be seriously recognized.

Today the most noted exponent of the viewpoint George expressed at Berkeley is Joan Robinson. In *Economic Philosophy* she explains that we cannot distinguish ideology from science because ideology poses the questions science sets itself to deal with. "Any economic system requires a set of rules, an ideology to justify them and a conscience in the individual which makes him strive to carry them out." It is Robinson's opinion that it is "the task of the economist to . . . justify the ways of Mammon to man. No one likes to have a bad conscience. Pure cynicism is rather rare. Even the Thugs robbed and murdered for the honour of their goddess. It is the business of economists, not to tell us what to do, but to show why what we are doing anyway is in accord with proper principles . . . So economics limps along with one foot in untested hypotheses and the other in untestable slogans. Here our task is to sort out as best we may this mixture of ideology and science."[65]

At the time George wrote, however, society and scholars were not ready for George's fusion of economics and ethics, and, as we have seen, some writers find it too radical even today.

Notes

Chapter II

At the outset of his description of the economic process, Nobel laureate Paul Samuelson offers a definition of "economic scarcity" as referring "to the basic fact of life that there exists only a finite amount of human and nonhuman resources, which the best technical knowledge is capable of using to produce only a *limited* minimum of each and every good . . . And thus far, nowhere on the globe is the supply so plentiful or tastes so limited that the average man can have more than enough of everything he might fancy." [66]

Whether the professor has offered a single, complex fact or adduced an agglomeration of facts is of little consequence. What he has made clear is the essential dichotomy of economic activity: the interaction between human effort and nonhuman resources that produces needed and desired goods. In economic terms, man (labor) in his element (land) uses tools (capital) and skill (technology). The tools he uses are mere products of the system turned to further production; the skills and knowledge he employs are but the development of the man. It is too often overlooked that implements do not come to hand full-made and that techniques and competence do not exist disembodied.

Henry George dealt with three concepts drawn from classical literature: land, labor and capital.

> The term land necessarily includes not merely the surface of the earth as distinguished from the water and the air, but the whole universe outside man himself, for it is only by having access to land, from which his very body is drawn, that man can come in contact with or use nature. [67]

Land, in George's lexicon "embraces all natural materials, forces and opportunities, and, therefore, nothing that is freely supplied by nature can be classed as capital." He described capital as "only a part of wealth – that part, namely which is devoted to the aid of production."[68] "Wealth" he defined narrowly as the physical, exchangeable goods that emerge from production.

George was concerned with "real" capital, that is the tangible tools of production and goods in process of production – producers goods and inventory. If he paid scant attention to financial capital, it was not to slight the role of securities markets or the importance of money and credit in an industrial-market society. It was rather a matter of emphasis. The way savings flow into industry, the habits of savers and investors, the public's shifting attitudes toward spending or holding cash, the efforts of monetary authorities to manipulate credit in an attempt to stabilize market forces all have great influence on the course of business activity. But if we are to treat production and distribution in real terms, the veil of money must be held aside.

In other than money values, *rent* is considered the real "return" to land. It is that portion of the product the user of the site must pay for the opportunity to produce on it. Similarly, *wages* are the portion of production labor can retain, and the return to capital (*interest* to the economist*) is that part of the product that accrues to real capital.

*The term "interest" to economists embraces both the return to capital goods and, what is the popular notion, the fee paid for the use of credit, for indeed the two are intimately related.

Some economists treat yet another, a fourth, ingredient in production, that of entrepreneurship. This is the role filled by the innovator, the inventor, the promoter (not necessarily in its pejorative sense). The entrepreneur puts together the package that becomes the production organization; his is the risk and to him inures the profit or the loss. The entrepreneurial function is important, certainly in the growth stages, to an industrial society. It is not vital, however, to the production-distribution process as a separate and separable element.

In a preindustrial state, the farmer, the artisan or the shopkeeper usually assumed the positions of investor, entrepreneur, manager and often worker all at the same time. He owned his capital goods and perhaps his own land. Thus his income was a bundle of rent, wages, interest and profit; the last two inseparable for practical purposes. The age of invention and industrialization shook these functions apart. The landlord rented the site to an entrepreneur who used his savings to buy capital goods; he contributed, too, his inventiveness; he hired labor – which often included managerial talent – and his was the risk of enterprise in the marketplace. The United States Supreme Court decision of 1886 that a corporation was a person within the meaning of the "due process" clause of the federal Constitution gave unprecedented security to the life of the larger corporation. As a consequence the entrepreneurial risk in the larger areas of production-distribution today is widely diffused among a huge investing public.

For our purposes, the vital avenues of the distribution of the real wealth produced are to rent, wages and the return to capital. And the important distinction is between what can be imputed to the nonreproducible element, land, as contrasted with the reproducible one, capital.

Analysis begins, therefore, with the land and how it is used. As early as 1910, von Thunen published *Der Isolierte Staat (The Isolated State)* in which he observed that farmland around a city would be used as the needs of the urban market dictated rather than was indicated by the best use of the soil, rainfall and temperature.

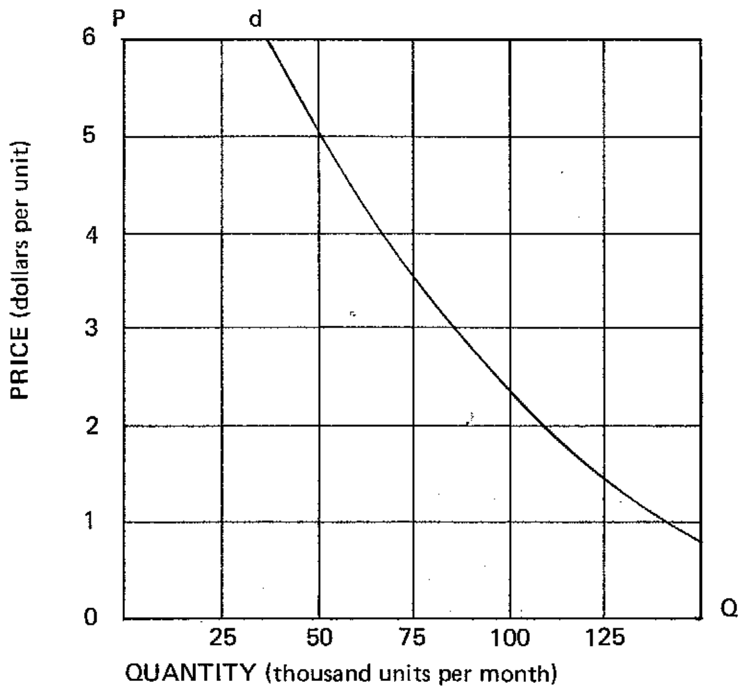
How does the farmer, near to the city or far afield, know the dictates of the market? To grow crops and take them into town to see whether they will sell is worse than inefficient, it would be foolhardy. Like any businessman, the farmer grows what experience tells him will bring the best income as compared with the outlay he must make.

These outlays are simple enough to determine. He must pay wages for the *labor* expended – his own and that of others. He must pay, in one way or another, his *capital* costs. That is, he must either keep some of a previous crop as seed or buy seed and he must pay for the tools and equipment he uses. And he must pay for the use of the *land*.

Neither the farmer nor most other businessmen can operate on a "cost plus" basis. They must find markets where they can sell their products at a price that covers their costs. This is another way of saying that economic behavior responds to change in price. Unavoidably it is a circular system because prices are sensitive to the behavior of the economy. Yet it is possible figuratively to stop the action and observe it. To do this, economists have developed supply-demand theory.

To begin we note that, leaving aside the influence of taste and fashion, people will generally buy more of the same quality of an item when the price is low than when it is high. You might buy two pair of shoes at $18, but only one of the same kind at $25 a pair. Plotted on a graph, this proclivity produces what the economist calls the "downward sloping" demand curve.

THE DEMAND CURVE

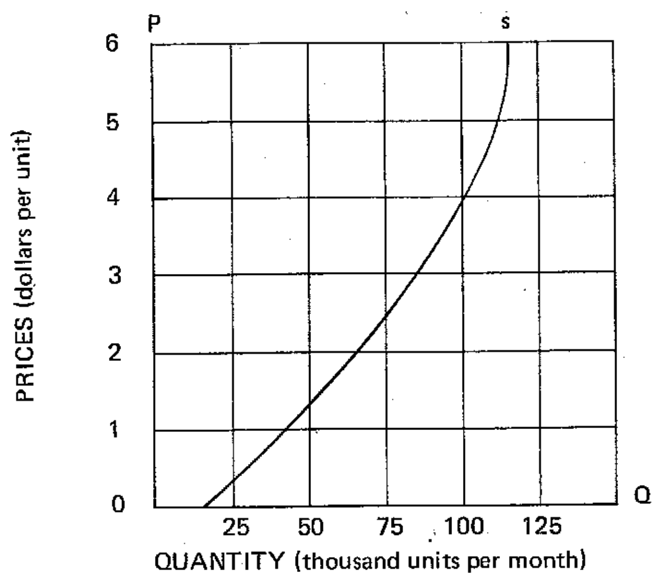


As the price of a unit (measured along the vertical axis) decreases, demand (along the horizontal axis) grows larger. Thus at $6 apiece only about 30,000 items can be sold per month, but at $2 the market will absorb more than 100,000. The curve (d) illustrates the concept of downward sloping demand.

Next, the attitude of producers of an item is obviously dictated by its cost of production. The sale price must cover all costs. The manufacturer must cover his payroll, his material and plant equipment cost as well as the return to investors or lenders, and rent on the site he occupies (here the "profit," or return to the investor and compensation for risk, is lumped). Hence, at higher market prices more producers will be able to come into a particular market than at lower ones. The curve will slope upward to the right. (See chart on page 58.)

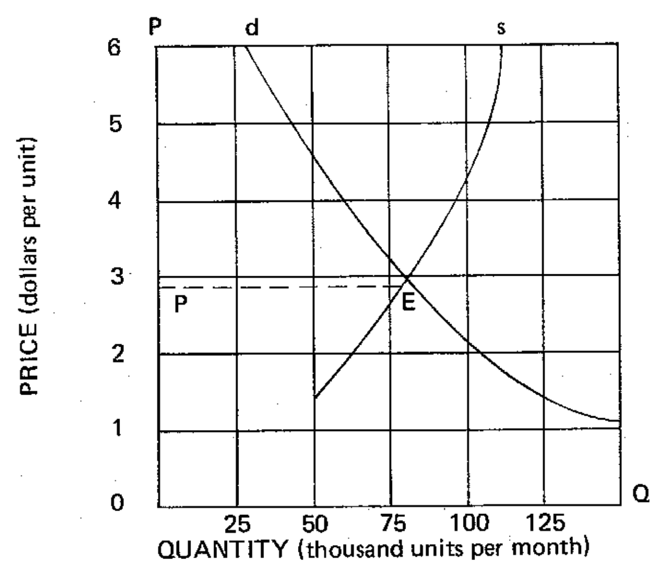
Put the two charts together and we can get considerable information about the market. At the point where the two curves cross we find the "equilibrium" price, the price at which supply and demand will be in balance. If, for some external reason with other things remaining unchanged, the price were to rise above this point, a surplus of goods would result. To work off their inventories, if for no other reason, sellers would cut their prices. Or if the price were to be depressed below the equilibrium point, the resultant shortage would soon have buyers bidding against each other for the available items, pushing the price upward. (See chart on page 58.)

THE SUPPLY CURVE



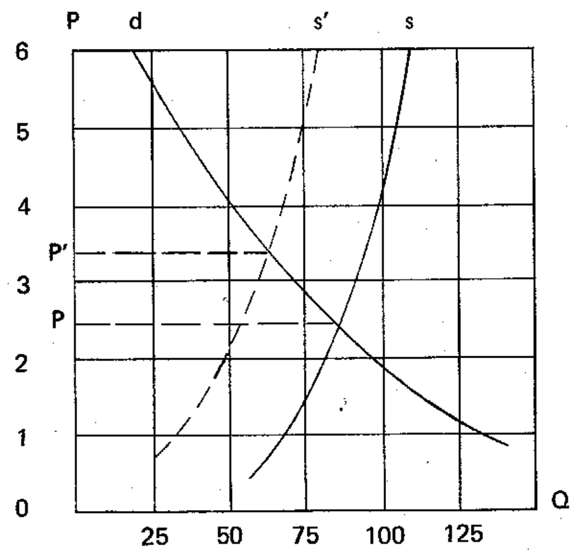
Conversely, as the price of a unit rises, more producers are able to supply the market. A $2 price will bring only about 75,000 units into the market each month, while at $6 roughly 120,000 units will come into the market. The line(s) shows the upward sloping supply curve.

SUPPLY DEMAND

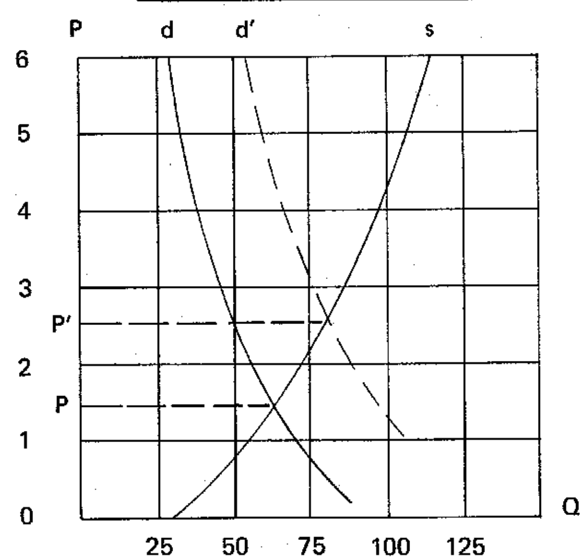


Where the two curves intersect the amount supplied will match the amount demanded. This is the point of equilibrium (E) around which price will tend to fluctuate; in this case $2.60 (P). If units are priced lower than $2.60, demand will exceed supply and bid the price up. At a higher price supply will be in excess of demand; overhanging inventory will evoke competitive price cutting.

With this device we can determine the effect on price of a particular item when there are changes in either supply or demand, or the probable effects on supply or demand when other forces impinge upon price. By shifting the curve to represent changed conditions, we can see where such changes indicate a new point of equilibrium.



With no change in demand, when influences external to production force the supply curve (s) to shift to the left, indicating a smaller quantity (s'), higher prices will result; the rise is shown from P to P'.



When the supply curve remains unchanged but demand increases, the demand curve (d) moves right (d'); prices will rise from P to P'.

N.B. Vertical axes represent PRICE (dollars per unit), horizontal axes represent QUANTITY (thousand units per month)

Admittedly this is an oversimplification of the way a complex market economy works. It relies on the unrealistic assumptions that "other things remain equal" and that goods in a category are completely homogeneous, that one item is exactly like all the others. Nevertheless the device is useful as an analytical tool. It must be remembered, however, that we have been dealing with an independent market for a particular good. Such a market does not exist in isolation but amidst other markets, constantly influenced by them in turn.

In addition to the assumption that these goods are being offered under conditions of "perfect" competition, there is the implication here that money is "neutral." That is the economist's way of saying that its purchasing power doesn't change or that it changes uniformly in all uses so that money has no effect on relative prices. In short, no consideration is given to either inflation or deflation.

The analysis of distribution in real terms follows Say's Law. The French economist Jean Baptiste Say (1767-1832) posited his famous *la loi des debouches* (the law of markets) that the demand for any good is the supply of other things offered in exchange, and the supply of one is the demand of the other. This is an obvious truism in a barter economy and in the long run it must apply everywhere.

The concept served the classical writers. They not only made the reasonable assumption that all production is for consumption, they understood that what was not consumed became capital and was used in furthering production. For example, the corn put aside was the seed for the next crop. The farmer thus abstained from total consumption to provide needed capital.

Abstinence, or saving as it is usually called, is not always directly the storing of some commodity against future use. Saving is most often in the form of unspent money. The classicists, in describing their conditions of equilibrium often gave too little attention to changes in money and credit as they affect economic demand.

Around the turn of the century economists observed that consumption increased at a slower rate than production. This was based on the law of diminishing marginal utilities. That is, you will have progressively less use for each additional unit of a product. You will not be likely, therefore, to keep buying more of everything as your income goes up. As income results from the sale of products, increasing output should lead to rising incomes. But if purchasing is not going to rise in step with production, the system will wind down.

What of the seed corn? If people spend proportionately less of their incomes they will save more. The savings will be invested; labor and resources will be channeled into making of capital goods. Say's Law would appear to be redeemed.

Writing in the depression of the 1930's, John Maynard Keynes* pointed to a defect in this formulation. As Alvin Hansen explains, Say's concept "confuses an *indubitable* proposition, namely that income derived by all the productive factors springs from the sale of the output, with the *invalid* proposition that therefore all costs of output will necessarily by covered by the sales proceeds."[69]

*British economist (1883-1946), *General Theory of Employment, Interest and Money* (New York, Harcourt, Brace & World, 1965).

Keynes developed the "consumption function." Sales result from the demand for consumer goods plus that for capital goods. But current income comes from current production. And current production is undertaken in expectation of sales, with proceeds adequate to cover all costs. Keynes postulated: aggregate demand (consumer purchases + investment in capital goods) might not equal aggregate supply price (the cost of all output). He reasoned that (1) consumers won't spend all their current income, and (2) the demand for capital goods will be influenced by considerations other than current income.

In short, it cannot be assumed that money savings will be followed immediately and automatically by investment, i.e. the *purchase* of capital goods. When the farmer sets some of his crop aside for seed there is little doubt that his abstinence from current consumption will find its way into the furtherance of production. However, money deposited in a bank or given over to some other financial intermediary need not be offered in the loan market. And if it is, it may not be a sufficient addition to the supply of loanable funds to cause interest rates to decline enough to attract borrowers and thus cause real investment.

In these circumstances production of capital goods will decline with resulting unemployment in this sector. This, in turn, will cause shrinkage in consumer goods and service industries with a consequent spread of unemployment.

Empirical data tend to support the view that Say's Law is somewhat academic. It does not, however, rule out the classical view of distribution of the product in real terms. Indeed, Hansen assures us Keynes' "thesis is as follows: Classical doctrine is adequate to explain how any given product is divided between the factors, including the return to labor. It will tell you what the real wage rate will be, given the volume of employment; but it does not explain the volume of employment."[70]

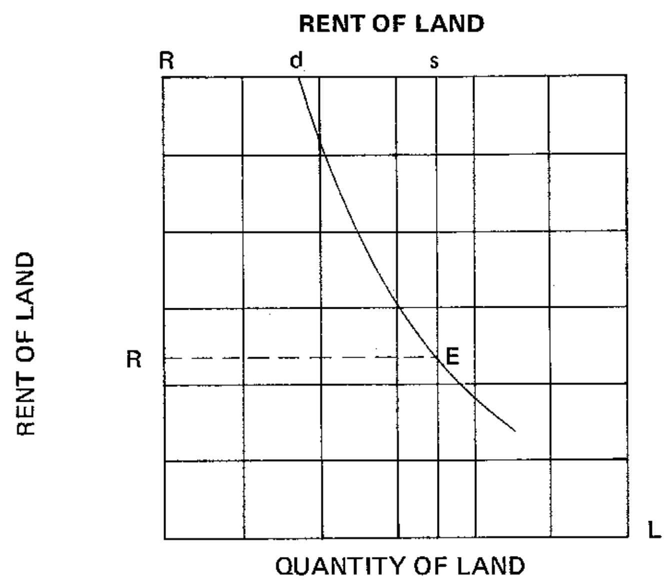
Demand for land is *derived demand*. It is derived from the demand for the goods that will be produced on it. Each individual producer, or user of the land, can calculate what he can afford for the site where he will operate. Plotting the figures at which each user makes his bid for a site will result in the customary downward sloping demand curve.

On the supply side, the picture changes. Heretofore we have observed that at higher prices, greater supplies of an item are available than there are at lower prices. As a result, a supply curve ordinarily slopes upward to the right. Land, however, is unique.

Samuelson tells us:

> Now it is one of the peculiarities of land that, unlike most things, its total supply is relatively fixed by nature and in general cannot be augmented in response to a higher price for it or diminished in response to lower land rentals. (This is not strictly true. Land can sometimes be created by drainage, and the fertility of existing land can be depleted by overcropping.)
>
> Nonetheless, we can accept its complete fixity of land's supply as the characteristic feature. By tradition, we may confine our discussion to the "original and inexhaustible gift of Nature" whose total supply is by definition *completely inelastic*. It was the price or return to such a factor that the classical economists of the last century called "rent."[71]

On this basis, we can draw the supply curve for land as a vertical line. Thus, unlike the usual supply-demand graph, with two sloping lines crossing each



Unlike most economic goods, land is in relatively fixed supply. While marshes and shore-line areas can be filled in to add to available sites, new land does not readily become available as the price for its use goes higher, nor does the area open for use shrink when land rentals go down. Hence the supply curve (s) on the chart is represented by a vertical line. Land rent will tend to fluctuate around the point (E), where the downward sloping demand curve crosses the supply curve.

other, such a graph involving land shows a downward sloping curve (demand) crossing a vertical curve (supply) at the equilibrium point toward which land rent must tend.

Rent arises because the non-reproducible land exists in limited quantity and users compete for the most advantageous locations. Withdrawal of a unit of land from production – other things unchanged – will reduce aggregate output. This is the amount of production dependent on the use of the withdrawn parcel; its rent will be roughly equal to the market value of that amount.

Ricardo* promulgated his law of rent – giving due credit to Anderson**– on the assumption that land is in perfectly inelastic supply. That is, an increase in rent will not bring forth a greater supply, and a decrease in rent does not reduce supply. In his classic view rent was considered to arise as a consequence of competition for "the original and indestructible powers of the soil."

This so-called law has never been repealed, but in a modern industrial setting it is of little value to relate rent to the fertility of the land. Nevertheless, the concept of rent remains unchanged. Joan Robinson characterizes it as the income to land above the cost of converting it into a factor of production.

Consider the perfectly inelastic, vertical supply curve. For any one parcel, the supply curve is definitely vertical – as it is for any one-of-kind object: the Mona Lisa, the Hope Diamond, or Niagara Falls. For the whole world the supply curve of physical land is perfectly vertical. Economic land in an economically relevant area, however, will have a supply curve sloping slightly upward to the right. The degree of slope will depend on the economic as well as geographic conditions that prevail in the area.

The slope is a consequence of the small amount of economic land that is "created" by drainage, irrigation, filling and the like. But this is relatively unimportant in most regions. The supply of economic land depends on intensity of economic activity, on the magnitude of investment in the economically relevant area.

For example, Phoenix, Arizona is a 400-square mile city surrounded by desert. A tract of desert 10 miles from the city line has no economic value – it is merely physical land. A good part of Staten Island (the borough of Richmond in New York City) was little more than mere physical land of little value until the Verrazano-Narrows Bridge, opened in 1964, linked the island with Brooklyn. In short order, what had been physical land – reached by an interesting if leisurely ferry ride through New York Bay – became highly valued economic land.

The supply of economic land may be influenced by several factors. Foremost among them is transportation. Accessibility is the prime characteristic of economic land as distinguished from physical land. Another factor is population. As population grows, either the supply of economic land will increase by horizontal expansion into what was unused or physical land, or existing economic land will be used more intensively by vertical expansion in multi-storied structures. The mix of these two types of expansion will be determined by relative

*David Ricardo, English economist 1772-1823
**Adam Anderson, Scottish economist 1672-1765

cost. It is easier to build a skycraper in Manhattan than to fill in the East River, while it is easier to build a road into the desert from Phoenix than to build a skyscraper there.

The concept of "economic land" – as contrasted with the classicists' resort to the physical margin – enables us to deal more clearly with the notion of site.

> Each site tends to be put to the use whereby it will yield the maximum return over the costs involved in utilizing it . . . The differential remaining, which is due to the superiority of the profit-making opportunities afforded by one site as compared to another, is rent, and is put into the hands of the landlords by the competition of entrepreneurs for the best opportunities.[72]

Each site is unique. Hence the return imputed to the site is a monopoly profit – monopoly being described as the opportunity to restrict supply so as to influence price. Of course, the owner of land is not responsible for restricting the supply of land, except to the extent that he speculates by holding land out of production or underutilized. Nevertheless, land rent is a monopoly profit.

The payment of rent represented, to Henry George, no aid to production, but only the monopoly power of obtaining a part of production from whoever was accorded the opportunity to produce on a given piece of land. "Rent, in short," he said, "is the price of monopoly, arising from the reduction to individual ownership of natural elements which human exertion can neither produce nor increase."[73]

The value of the land is based on its accessibility and its location within the economic arena – the intensity of economic activity on neighboring sites. Because the owner of a site produces neither accessibility nor the intensity of surrounding economic activity, rent is not, strictly speaking, a "return to a factor of production" but rather the consequence of external economies. To the landlord it is an unearned increment.

Chapter VII

In 1913 the City of Pittsburgh adopted the graded tax plan. This required that the building tax rate be exactly one-half of the land tax rate. Percy R. Williams, former chief assessor of Pittsburgh, has spelled out some of the results of this experiment.*[74]

"One outstanding fact that is not disputed by those familiar with the graded tax plan is that the act of 1913 has brought about a definite shifting or transfer of a substantial portion of the tax burden from one class of property to another, and consequently from one group of taxpayers to another."

To demonstrate this shift, Williams calculates the taxes that would have been paid in any year if a uniform rate had been applied to land and buildings. He compares these results with actual payments under the graded plan. He concludes, "the great majority of real estate owners are saving money in taxes through the graded tax law. It follows, of course, that the owners of vacant or under-improved land are paying higher taxes, as contemplated by the sponsors of the law. Where land values are very high, as in the downtown 'Golden Triangle' and in some other important shopping centers, most of the properties (including some with very substantial improvements) now pay more. But in the residential areas a large majority pay less taxes."

"It is the home owner," Williams reports, "who emerges as the chief beneficiary of the graded tax. This is widely recognized as one of the principal reasons why this plan has popular support."

Summing up, he notes the only valid criticism "is that the graded tax law does not go far enough in the process of shifting taxes from improvements to land values. The Pittsburgh experiment was, of course, in the nature of a compromise between the proposal for an exclusive land-value tax and the retention of the conventional flat tax on all real estate (land and buildings alike) . . . Pittsburgh's long experience has proved the soundness of the graded tax method and has also shown how its adoption can be achieved through a gradual approach."

Looking to the future, Ted Gwartney commented on an initiative proposition in California that would have given the voters an opportunity to exempt all buildings and personal property from taxation. The following is from a symposium on Property Taxation, Housing and Urban Growth conducted by The Urban Institute, Washington, D.C., in June, 1970:

> At the present time, without any new reassessments going on, according to the state board of Equalization, 37% of all assessed property values [in California] represent land. The balance represents improvements and personal properties.
>
> This indicates that if this initiative were passed – to get the same amount of revenues as is now collected from the total property tax base – you would have to increase the tax rate by 2.6 times, statewide. This means that if you now have an effective 3% tax rate on buildings, land, and personal property, the new effective rate – on land only – would be about 7.8%, a rather substantial increase.

*"Pittsburgh's Experience with the Graded Tax Plan," *The American Journal of Economics and Sociology,* Volume 22, Number 1, (January 1963) p. 149.

As far as the pluses and minuses go, it was estimated that 92% of all tax bills would be decreased as a result of this initiative. Almost all – not all but the majority – of homeowners would have a decrease in taxes because, generally speaking, lot value is about 20 to 25% of the total value. So if you increased the tax rate by two you would still have a net savings of about 35 to 48%. It also was determined that most industries and business would also save.

It was determined that farmers would generally break even, with many saving tax dollars. The reason that they would break even is that farm land values are usually a small fraction of the land values in the city. Whereas city acreage would sell for maybe $20,000 an acre, the farm acreage would sell for maybe $500 an acre. Even with increasing the burden on these farm land values, the farmers are still going to be saving on all their equipment, buildings and taxable crops.

Also, as has been pointed out in the study, the farms have a higher relationship of land values to building values in their specific taxing jurisdiction. For example, we found that in a rural school district, the Elk Grove school district, 60% of all the value was land. So that the school tax rate would only have to be increased 1.6 times (not 2.6 times, as for the statewide average) to get the same amount of revenue from land only.

So the net result is that farmers would about break even or save. They would actually save quite a bit if they took advantage of the state's provisions for lower assessments to those who contract with their city or county not to build.

These are the pluses. Obviously, there are losers. Those getting higher tax bills would be the people who owned downtown slum properties. In many cases these bills would be 2.6 times what they are at present. We generally assign to slum property a very low building value, maybe a few hundred dollars, and full land value. Obviously, the effect of the proposal would be to force the owners to do something to raise the revenue that they receive from the slum dwellings, either remodel and repair, or tear down and build a new structure.

The others who would have to pay more would be owners of high-demand vacant land. If the land has high value and there is a ready market to build on it, an owner who had been holding out for a higher price would now be forced either to build on it or to sell to someone who would.

Chapter IX

All production must pass through the market to its ultimate goal, consumption. As money is the medium of that passage, it is perhaps easy to imagine that manipulation of money would control distribution and thereby influence output. Thus the veil of money is made more than an agency of obfuscation; it becomes an instrument of distortion.

The mechanism has evolved slowly. With a fractional-reserve banking system, the money supply (narrowly defined as currency in circulation and private checking account balances) expands and contracts through the monetization and demonetization of commercial and national government obligations. In broad outline, when a commercial borrower signs a note, his bank adds an appropriate amount to his checking account balance. In effect, the bank creates dollars with a bookkeeping entry.

By prudent banking practice as well as legal requirement, the bank must maintain a ratio of reserves against deposits. This ratio is usually in the neighborhood of 20%. Thus for every dollar of reserve the bank has, it can have $5 in deposits. Inasmuch as loans are made through the mechanism of additions to deposit balances, the maintenance of reserves is an effective limitation on bank lending ability. Conversely, expansion of reserves gives the banks a multiple power to increase the money stock. This is why bank reserves are often referred to as "high powered money."

In our system, commercial bank reserves are their deposits with the Federal Reserve Banks. For all practical purposes these are the only reserves against our money -- the checking account balances in commercial banks and the Federal Reserve notes that are our currency.

The original concept of the Federal Reserve System was to provide a central repository for reserves so that temporary weakness of an individual bank could be overcome by resort to the collective reserves of the system. To maintain the integrity of these reserves, the System authorities were given a measure of control over the quality of loans by the commercial banks. Not only were the commercial banks made subject to Federal Reserve audit, they were required to keep levels of reserves set by the System authorities.

A bank with enlarged deposit balances would run in danger of falling below the required reserve ratio. In such a case, the bank could tap the collective reserve by borrowing from the Federal Reserve. The commercial bank could do this by using the discounted note signed by its borrowing customer as collateral for a 15-day loan from the Federal Reserve Bank. By determining what paper it would accept for such rediscount (what borrowers it would consider the soundest risks) the Federal Reserve influenced the *kind* of loans commercial banks were most likely to make.

It was not long, however, before debt obligations of the Federal government were to take their place alongside commercial paper as acceptable collateral for commercial bank borrowing from Federal Reserve Banks. This change had a two-fold effect on the nation's monetary system: (1) it shifted emphasis from quality to quantity control of credit; (2) it turned the central bank toward the fostering of inflation.

The change in the character of high powered money from predominantly commercial paper to government securities has meant that Reserve authorities have less control over the *quality* of credit; they only exercise influence over its *quantity*. It is hardly to be expected that the Federal Reserve Board – a creature of Congress – would presume to tell the Secretary of the Treasury his paper was unacceptable.

Commercial debt is contracted for the purpose of bringing goods into the market place. Hence, when commercial paper is used as high powered money, the money supply expands in response to business needs. This means more dollars in circulation are likely to be met by more goods. Government borrowing, on the other hand, is unlikely to expand production in the short run, if at all. Using government obligations as high powered money more often than not puts money in circulation with no increase in output – the familiar affliction of more dollars chasing no more goods. As a consequence, monetization of government debt has made the central bank an engine of inflation.

The most efficient and frequently used device with which Reserve authorities seek to control the money supply is the Federal Open Market Committee (FOMC). By instructing the FOMC to buy government securities in the open market, the authorities provide for the expansion of the money supply; by selling they contract it. For example, the FOMC buys $100,000 worth of Treasury bills from a private holder. To pay for its purchase the Federal Reserve draws a check on itself. The private seller deposits this check in his own commercial bank, which then sends it to the Federal Reserve Bank for credit. As an addition to the commercial bank's balance with the Reserve Bank, the $100,000 is now high powered money, increasing the commercial bank's lending power several fold. By reversing the process, the money managers can pull the credit string tighter.

With such tactics, the Fed has sought to requite its mandate to achieve stability. Experience since World War II has demonstrated how difficult this is. Political officeholders, seeking to fulfill their promises to the electorate, have had to incur federal debt. To finance this debt out of savings would draw too much needed funding away from business capital investment and retard economic development. Hence, it has been necessary to resort to expansion of credit by central bank support of government securities markets. The inflation this operation has produced reaches politically unpalatable proportions. Whenever the money managers try to reduce this inflating process by tightening the credit strings, the resultant unemployment has been politically unacceptable. This see-saw has led some observers to talk about the trade-off between unemployment and rising prices.

As long ago as 1883, George suggested: "It is not the business of government to make men virtuous or religious, or to preserve the fool from the consequence of his own folly."[75] But government has long ceased to be merely an arbiter among equals and has sought to use its power to redress inequalities. Perhaps this is because we have ignored the lesson George taught that "The great cause of inequality in the distribution of wealth is inequality in the ownership of land."[76]

Instead of trying to redress this basic inequality, we have sought to redistribute money income through taxation and spending and tampering with the exchange medium. There is a considerable body of opinion that we have been unsuccessful. Moreover, the inflating process in which we appear trapped distorts relationships and worsens inequality.

It also may have forced a distortion in cyclical affairs that goes unheeded. Almost all contracts involving land use are for fixed dollar amounts of rent during the contract period, the landowner continues to get his fixed dollar rent, which is a diminishing amount of real wealth. This effect may tend to delay the impact of land value speculation. But it is to be doubted that it negates that effect. At best our money management can but postpone adjustment of fundamental imbalances – a redress that will be the worse for the delay.

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